Report of the Directors and Audited Financial Statements

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

Year ended 31 December 2020

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

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BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

REPORT OF THE DIRECTORS

The directors submit their report together with the audited consolidated financial statements of Bank of China International Limited (the "Company") and its subsidiary (together, the "Group") for the year ended 31 December 2020. The Company's subsidiary, Modenia Limited, was dissolved on deregistration on 27 March 2020.

Principal activities

The Company is a restricted licence bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Company are the provision of banking, financial and other related services. The principal activity of its subsidiary is set out in note 1 to the consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 6.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2020.

Shares issued

There were no movements in the Company's share capital during the year.

Directors

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

Wang Zhongze
Tang Fong Chai Francis
Qian Feng
Lam Kwong Siu
Ip Sio Kai
Wong Wai Kwan Anna
Lie Kong Sang

Other than the directors set out above, the directors of the Company's subsidiary during the year and up to the date of deregistration are:

BOCI Secretaries Limited
Wang Jun

In accordance with the Company and its subsidiary's articles of association, all directors retire by rotation and, being eligible, offer themselves for re-election.

Directors' interests

No contracts of significance in relation to the Group's business to which the Company, its subsidiary, any of its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiary, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors nor a connected entity of the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Management contracts

The Company has an agreement with its intermediate holding company (BOC International Holdings Limited), under which the intermediate holding company provides administration and support services to the Company in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by both parties giving not less than one month's written notice. In addition, the Company has entered into agreements with its fellow subsidiaries (BOCI Securities Limited and BOCI Private Wealth Management Limited), under which the Company provides referral services to the fellow subsidiaries in return for a fee which is agreed and reviewed on an annual basis.

The Company has an intra-group arrangement agreement with its intermediate holding company (BOC International Holdings Limited) under which the Company transfers its payment obligations or indebtedness liabilities to the intermediate holding company. The intermediate holding company is entitled to set off payments, sums and/ or liabilities owed by it to any subsidiaries against any payments, sums and/ or liabilities owed to it by any subsidiaries. During the year, no offsetting payments on intragroup transactions have been made by the Company.

Permitted indemnity provision

Every director shall be indemnified against all liabilities incurred by him/ her to the extent permitted by the Hong Kong Companies Ordinance. The intermediate holding company has maintained insurance for the benefit of directors against liability.

Compliance with the Banking (Disclosure) Rules

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

Auditors

The consolidated financial statements for the year ended 31 December 2020 have been audited by Messrs Ernst & Young ("EY") who will retire as auditor of the Company upon expiration of its current term of office at the close of the forthcoming annual general meeting of shareholders.

The directors propose the appointment of Messrs PricewaterhouseCoopers as the new auditor of the Company to fill the vacancy immediately following the retirement of EY and to hold office until the conclusion of the next forthcoming annual general meeting of the Company, subject to the approval by the shareholders.

ON BEHALF OF THE BOARD

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Geng Min Catherine
Secretary

Hong Kong
28 April 2021

Ernst & Young
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Central, Hong Kong

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INDEPENDENT AUDITOR'S REPORT
To the members of Bank of China International Limited
中銀國際有限公司
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of China International Limited (the "Company") and its subsidiary (the "Group") set out on pages 6 to 73, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information included in the Annual Report

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

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

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

A member firm of Ernst & Young Global Limited

EY 安永

INDEPENDENT AUDITOR'S REPORT (continued)
To the members of Bank of China International Limited
中銀國際有限公司
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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INDEPENDENT AUDITOR'S REPORT (continued)
To the members of Bank of China International Limited
中銀國際有限公司
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Ernst & Young

Certified Public Accountants
Hong Kong
28 April 2021

A member firm of Ernst & Young Global Limited

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2020

	Notes	2020 HK$	2019 HK$
Interest income	4	165,057,202	255,548,809
Interest expense	4	(53,574,920)	(116,949,358)
Net interest income	4	111,482,282	138,599,451
Fee and commission income	5	184,342,385	126,016,025
Fee and commission expense	5	(191,004)	(6,648,474)
Net fee and commission income	5	184,151,381	119,367,551
Net trading gains	6	11,827,638	11,277,583
Operating income		307,461,301	269,244,585
Other income		170,406	-
Operating expenses	8	(246,311,927)	(232,113,889)
Profit before impairment allowances		61,319,780	37,130,696
Net (charge)/release of impairment allowances	9	(96,659)	74,801
Profit before taxation		61,223,121	37,205,497
Income tax expense	10	(10,071,769)	(6,373,615)
Profit for the year		51,151,352	30,831,882
Attributable to:			
Equity holders of the Company		51,151,352	30,831,882

The accompanying notes form an integral part of these consolidated financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 HK$	2019 HK$
Profit for the year	51,151,352	30,831,882
Total comprehensive income for the year	51,151,352	30,831,882
Attributable to: Equity holders of the Company	51,151,352	30,831,882

The accompanying notes form an integral part of these consolidated financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 HK$	2019 HK$
ASSETS			
Cash and due from banks	11	2,669,489,375	2,790,627,996
Placements with banks	12	1,397,338,814	1,682,078,147
Derivative financial instruments	13	7,216,849	9,270,488
Loans and advances to customers	14	4,891,463,779	5,048,309,514
Debt instruments at fair value through other comprehensive income	15	174,994	174,997
Debt instruments at amortised cost	15	349,976,519	149,610,910
Deferred tax assets	10	52,543	39,461
Other assets	16	8,614,562	6,613,136
Total assets		9,324,327,435	9,686,724,649
LIABILITIES			
Deposits from customers	17	7,537,498,751	7,958,172,687
Amounts due to an intermediate holding company	18	79,574,047	77,035,561
Derivative financial instruments	13	3,688,104	5,035,739
Tax payable		5,341,298	7,258,422
Other liabilities		35,992,572	28,140,929
Total liabilities		7,662,094,772	8,075,643,338
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	1,000,000,000	1,000,000,000
Reserves		662,232,663	611,081,311
		1,662,232,663	1,611,081,311
Total liabilities and equity		9,324,327,435	9,686,724,649

Tang Fong Chai Francis
Director

Geng Min Catherine
Secretary

Qian Feng
Director

Wang Zhongze
Director

The accompanying notes form an integral part of these consolidated financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Share capital HK$	Regulatory reserve[1] HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2019	1,000,000,000	42,962,197	537,287,232	1,580,249,429
Profit for the year	-	-	30,831,882	30,831,882
Total comprehensive income for the year	-	-	30,831,882	30,831,882
Transferred to regulatory reserve[2]	-	7,479,059	(7,479,059)	-
Balance at 31 December 2019 and 1 January 2020	1,000,000,000	50,441,256	560,640,055	1,611,081,311
Profit for the year	-	-	51,151,352	51,151,352
Total comprehensive income for the year	-	-	51,151,352	51,151,352
Transferred from regulatory reserve[2]	-	(1,553,463)	1,553,463	-
Balance at 31 December 2020	1,000,000,000	48,887,793	613,344,870	1,662,232,663

[1] As at 31 December 2020, HK$48,887,793 (2019: HK$50,441,256) was set aside as the regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserves are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority ("HKMA").

[2] During the year of 2020, the Group transferred HK$1,553,463 from the regulatory reserve to the retained earnings (2019: transferred HK$7,479,059 from the retained earnings to the regulatory reserve).

The accompanying notes form an integral part of these consolidated financial statements.

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Note	2020 HK$	2019 HK$
Cash flows from operating activities			
Net cash generated from /(used in) operating activities	21	941,853,018	(2,360,616,168)
Cash flows from investing activities			
Purchase of debt instruments at amortised cost		(1,098,970,062)	(297,803,346)
Proceeds from redemption of debt instruments at amortised cost		900,000,000	300,000,000
Net cash (used in)/generated from investing activities		(198,970,062)	2,196,654
Net increase/ (decrease) in cash and cash equivalents		742,882,956	(2,358,419,514)
Cash and cash equivalents at beginning of year		2,159,334,061	4,517,753,575
Cash and cash equivalents at end of year		2,902,217,017	2,159,334,061
Analysis of balances of cash and cash equivalents:			
Cash and due from banks with original maturity within three months		2,669,535,370	2,159,334,061
Placements with banks with original maturity within three months		232,681,647	-
		2,902,217,017	2,159,334,061

The accompanying notes form an integral part of these consolidated financial statements.

1. CORPORATE AND GROUP INFORMATION

Bank of China International Limited (the "Company") is a limited liability company incorporated in Hong Kong. The address of its registered office is 26/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

The Company is a restricted licence bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Company are the provision of banking, financial and other related services.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 April 2021.

In the opinion of the directors, the immediate holding company of the Company is BOCI Asia Limited, which is incorporated in Hong Kong.

Information about the subsidiary
Particulars of the Company's subsidiary are as follows:

The followings are the details of the subsidiary at 31 December 2019:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held	Total assets (HK$)	Total equity (HK$)
Modenia Limited	Hong Kong	Nominees services	Ordinary shares	100%	-	(169,564)

The Company's subsidiary, Modenia Limited, was dissolved by the way of deregistration on 27 March 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for the change in accounting policies and disclosures as disclosed in note 2.1(a) below.

2.1 Basis of preparation

The consolidated financial statements of the Group 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. They have been prepared under the historical cost convention, as modified for the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 24 to the consolidated financial statements.

(a) Changes in accounting policies and disclosures

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

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

Except for the amendments to HKFRS 9, HKAS 39 and HKFRS 7 and amendments to HKFRS 16, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the revised HKFRSs are described below:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Changes in accounting policies and disclosures (continued)

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

(b) Issued but not yet effective Hong Kong Financial Reporting Standards

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform - Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts - Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	*Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41*[2]

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] No mandatory effective date yet determined but available for adoption
[5] As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
[6] As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

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

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

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

- Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

  HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

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

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;
(ii) rights arising from other contractual arrangements; and
(iii) the Group's voting rights and potential voting rights.

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiary are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated 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 (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 Impairment of investment in a subsidiary and other non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities

2.5.1 Financial assets and liabilities

2.5.1.1 Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2.5.1.2 Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 24 to these consolidated financial statements, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.1 Financial assets and liabilities (continued)

2.5.1.3 Classification and subsequent measurement

The Group has adopted HKFRS 9 and classifies its financial assets in the following measurement categories: fair value through profit or loss ("FVPL"); fair value through other comprehensive income ("FVOCI"); or amortised cost.

Classification and subsequent measurement of financial assets depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classified its financial assets into one of the following measurement categories:

- **Amortised cost (debt instruments)**

  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured as described in note 24 to these consolidated financial statements. Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

- **FVOCI (debt instruments)**

  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

  Gains and losses on these financial assets are never recycled to the consolidated income statement. Dividends are recognised as other income in the consolidated 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 Group and the amount of the dividend can be measured reliably, except when the Group 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.1 Financial assets and liabilities (continued)

2.5.1.3 Classification and subsequent measurement (continued)

- **FVPL**

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 solely payments of principal and interest 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.

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated income statement within "net trading gain" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "net investment income". Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

This category includes derivative instruments and equity investments which the Group 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 consolidated 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 Group 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 consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.1 Financial assets and liabilities (continued)

2.5.1.3 Classification and subsequent measurement (continued)

- **FVPL (continued)**

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.

Business model assessment: the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

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

The Group reclassified debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes should be infrequent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.2 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 Group's consolidated statement of financial position) when:

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

When the Group 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group 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 Group 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 Group could be required to repay.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.3 Impairment of financial assets

The Group records the allowance for ECL for debt instruments recorded at amortised cost or at FVOCI, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss, in this section all referred to as "financial instruments".

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime basis), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the twelve months' expected credit loss (the twelve-month basis).

The twelve-month basis is the portion of the lifetime basis that represents the ECLs that result from default events on a financial instrument that are possible within the twelve months after the reporting date.

Both lifetime basis and twelve-month basis are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in note 24 to these consolidated financial statements.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained note 24 to these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.3 Impairment of financial assets (continued)

Based on the above process, the Group classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile in each instance:

- A financial asset is classified under Stage 1 if it was not credit-impaired upon origination and there has not been a significant increase in its credit risk since inception. A provision for twelve-month ECL is required.

- A financial asset is classified under Stage 2 if it was not credit-impaired upon origination but has since suffered a significant increase in credit risk. A provision for life-time ECL is required.

- A financial asset which has been credit-impaired with objective evidence of default is classified under Stage 3. The assessed ECL is expected to be unchanged from the existing individual allowances taken for such assets.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.5.4 Financial liabilities

2.5.4.1 Classification and subsequent measurement

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value. Fair value represents quoted prices if active market exists. When no active market exists, fair value is estimated by valuation techniques that are commonly used by market participants or dealer quotes.

Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.4 Financial liabilities (continued)

2.5.4.1 Classification and subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (continued)

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

(ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the management; or

(iii) The designation relates to financial instruments containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial instruments.

Financial liabilities at fair value through profit or loss, including structured notes issued embedded with certain derivatives, are designated as such at inception. Financial liabilities held for trading and those designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

Other financial liabilities

Other financial liabilities are carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the other financial liabilities using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets and liabilities (continued)

2.5.4 Financial liabilities (continued)

2.5.4.2 Derecognition

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

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

2.6 Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

2.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised immediately in the consolidated income statement.

Certain foreign exchange derivatives embedded in currency-linked deposits are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract (i.e. the underlying deposits) and the host contract is carried at amortised cost. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

2.8 Offsetting financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Provisions

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

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

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

2.10 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave or paternity leave are not recognised until the time of leave.

(b) Bonus plans

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

The Group recognises a liability and an expense for bonuses, with reference to the performance of the Group. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for bonus plans that are expected to be settled within twelve months are measured at the amounts expected to be paid when they are settled.

Bonus payments that are not due wholly within twelve months after the end of the year in which the employees render the related services are included as staff costs. The long-term employee benefits are measured at the present value of the expected payments which also reflects the possibility that some employees may leave without receiving the bonus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Employee benefits (continued)

(c) Pension obligations

The Group offers a mandatory provident fund scheme and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the mandatory provident fund scheme and the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2.11 Income tax

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

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

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of financial assets at fair value through other comprehensive income and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the consolidated income statement together with the deferred gain or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Dividend distribution

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

2.13 Interest income and fee and commission income

2.13.1 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. When the contract contains a financing component which provides the Company a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Fee and commission income is recognised on a point-in-time basis when the relevant services are rendered.

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounting at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Certain foreign exchange swap contracts are used for the Group's liquidity management and funding activities. The interest rate differential between the original currency and swapped currency of these foreign exchange swap contracts is reflected in net interest income using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Related parties

The Group entered into agreements with its fellow subsidiaries for the services provided in the capacity as an agent to introduce client business to the fellow subsidiaries and receives investments service fee incomes. The investment service fee incomes are calculated and recognised according to the terms and conditions specified in the relevant agreements.

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

(a) the party is a person or a close member of that person's family and that person:
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

3. FINANCIAL RISK MANAGEMENT

In line with the principle of "security, liquidity and profitability", sticking to the concept of balancing "risk, capital and income", the Group operates in a legal, compliant and prudential manner, prevents systematic risks, maintains reasonable capital adequacy level and sufficient liquidity, and strives to achieve a satisfactory return to the shareholder. The Group plays overall advantages, identifies, assesses and manages risk from a global perspective, captures and seizes development opportunities, creates values through professional, effective risk management, and supports the business strategy.

The Group's activities expose it to a variety of risks: market risk, credit risk, operational risk, liquidity risk, legal risk, compliance risk, reputational risk and strategic risk. The Group establishes the comprehensive risk management system suitable with the business strategy and global systematic importance statue, improves governance, prefers mechanisms, optimises operation process, develops risk management technologies and tools, identifies, measures, reports, controls and mitigates all materials risks in time, builds the economic capital management system step by step, and controls the risk level within the scope set by the risk appetite.

Risk Governance Structure

The Group establishes a comprehensive organization structure with both decision-making and control functions. The structure comprises three basic tiers: (1) the Shareholder, (2) the Board of Directors ("Board") and (3) the Senior Management as led by the Chief Executive ("CE").

Shareholder level

The Company is a wholly-owned subsidiary of BOCI Asia Limited. BOCI Asia Limited, as the sole shareholder of the Company, authorises the Board to lead the Group.

Board level

The Board is responsible for setting the fundamental strategic goals and risk vision of the Group. The Board appoints the Risk Committee ("RC") and the Audit Committee ("AC"), which assist the Board in overseeing the Group's risk management functions.

RC is a sub-committee of the Board of the Company. The general principal objective of setting up RC of the Company is for RC to provide independent oversight and guidance to the Board and senior management on risk issues, which shall include risks such as market, credit, operational, interest rate, liquidity, legal, compliance and reputation risks. RC is also responsible for organizing, advising, coordinating and monitoring the risk management within the Company, according to the authorization from the Board.

AC is responsible for assisting the Board in fulfilling their oversight responsibilities by monitoring the entire risk management process. Additionally, it is responsible for ensuring the independence of the internal and external auditors.

3. FINANCIAL RISK MANAGEMENT (continued)

Management level

The Executive Committee ("EC") is composed of the CE, Alternate Chief Executive, Chief Operating Officer, Chief Risk Officer, Head of Compliance, Head of Investment, Head of Finance, AML Compliance Officer and Head of Sales. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and management of the Asset and Liability Committee ("ALCO"). The ALCO is set up with the principal objective to oversee the management of assets and liabilities, and, in particular, the interest rate, liquidity and foreign exchange rate risks, and to develop relevant risk management policies in accordance with the general risk management policies adopted by the RC or EC.

The roles, functions and compositions of these committees are disclosed in note 18 of the unaudited supplementary information.

The Risk Control and Credit Committee ("RCCC") is a sub-committee of the EC of the Company. The general objective of setting up RCCC is to organise, advise, coordinate and monitor the risk management on market, credit, interest rate, liquidity, legal strategy and reputation risks of the Company, according to the authorization from the EC as well as the Board and the RC.

3.1 Market risk

The Group takes on exposure to market risk, which is the risk that the market value or fair value of a financial instrument will fluctuate because of the changes in market parameters.

The Group's exposures on market risks mainly arise from its interest rate and foreign exchange positions. These exposures are managed by the Treasury Department and monitored by the Risk Management Division (the "RMD") on a daily basis.

3.1.1 Interest rate risk

The Group takes on interest rate risk mainly from both cash flow interest rate risk and fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in interest rates.

The Group manages the interest rate risk with the aim to preserving capital and to ensure the steadiness and continuation of operations by:

- Maintaining an effective internal control system to identify, measure, monitor and control the extent and nature of risk on interest rate risk exposure; and
- Ensuring interest rate exposures are within internal limits.

The RMD sets limits on the level of DV01 (dollar value sensitivity of 1 basis point movement in interest rates), interest rate mismatch and duration gap to control the risks associated with parallel shifts of yield curves. Interest rate stress test limits are also approved by the Board and RC to control the adverse impact in case of extreme market conditions.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.1 Interest rate risk (continued)

The following table shows the expected repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting periods.

	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 months to 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
31 December 2020					
Cash and due from banks	2,584,518	-	-	84,971	2,669,489
Placements with banks	-	1,397,339	-	-	1,397,339
Derivative financial instruments	-	-	-	7,217	7,217
Loans and advances to customers	4,592,250	293,508	5,706	-	4,891,464
Debt instruments at fair value through other comprehensive income	-	-	-	175	175
Debt instruments at amortised cost	299,987	49,990	-	-	349,977
Financial assets included in other assets	388	-	-	150	538
Total assets	7,477,143	1,740,837	5,706	92,513	9,316,199
Deposits from customers	5,049,106	2,305,394	182,999	-	7,537,499
Amounts due to an intermediate holding company	-	-	-	79,574	79,574
Derivative financial instruments	-	-	-	3,688	3,688
Financial liabilities included in other liabilities	-	-	-	35,993	35,993
Total liabilities	5,049,106	2,305,394	182,999	119,255	7,656,754
Total interest repricing gap	2,428,037	(564,557)	(177,293)		

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.1 Interest rate risk (continued)

	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 months to 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
31 December 2019					
Cash and due from banks	2,557,593	-	-	233,035	2,790,628
Placements with banks	-	1,682,078	-	-	1,682,078
Derivative financial instruments	-	-	-	9,270	9,270
Loans and advances to customers	4,836,774	206,328	5,208	-	5,048,310
Debt instruments at fair value through other comprehensive income	-	-	-	175	175
Debt instruments at amortised cost	-	149,611	-	-	149,611
Financial assets included in other assets	-	-	-	201	201
Total assets	7,394,367	2,038,017	5,208	242,681	9,680,273
Deposits from customers	3,771,792	3,476,231	710,150	-	7,958,173
Amounts due to an intermediate holding company	-	-	-	77,036	77,036
Derivative financial instruments	-	-	-	5,036	5,036
Financial liabilities included in other liabilities	-	-	-	28,141	28,141
Total liabilities	3,771,792	3,476,231	710,150	110,213	8,068,386
Total interest repricing gap	3,622,575	(1,438,214)	(704,942)		

Interest-bearing assets and liabilities of the Group include cash and due from banks, placements with banks, loans and advances to customers, debt instruments at amortised cost, deposits and balances from banks and deposits from customers. If the general market interest rates increase/decrease by 1%, profit before taxation for the year is estimated to increase/decrease by approximately HK$17,899,000 (2019: HK$20,087,000).

3.1.2 Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency rates fluctuations. The Group mainly enters into foreign exchange derivative transactions with its clients, BOC International Holdings Limited and its subsidiaries (the "BOCI Group") for its business needs and hedges the exposures with counterparties. The Group may also use foreign exchange derivatives to manage its own net foreign exchange positions against its functional currency, i.e. Hong Kong dollar.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.2 Foreign exchange risk (continued)

The Group manages the foreign exchange risk with the aim to ensuring that its earnings and capital adequacy are not significantly threatened by the excessive exposure to foreign exchange risk by:

- Maintaining an effective internal control system to identify, measure, monitor and control the extent and nature of risk on both foreign exchange operation and exposure; and
- Ensuring foreign exchange exposures are within internal limits.

The RMD sets limits on individual and aggregate net open positions of various currencies to control the foreign exchange risk. Foreign exchange stress test limits are also approved by the Board and RC to control the adverse impact in case of extreme market conditions.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

	HKD HK$'000	USD HK$'000	CNY HK$'000	JPY HK$'000	Others HK$'000	Total HK$'000
31 December 2020						
Cash and due from banks	2,078,203	424,939	32,541	2,579	131,227	2,669,489
Placements with banks	-	1,397,339	-	-	-	1,397,339
Derivative financial instruments	-	68	5,074	315	1,760	7,217
Loans and advances to customers	2,978,345	1,626,127	-	69,507	217,485	4,891,464
Debt instruments at fair value through other comprehensive income	175	-	-	-	-	175
Debt instruments at amortised cost	349,977	-	-	-	-	349,977
Financial assets included in other assets	150	388	-	-	-	538
Total assets	5,406,850	3,448,861	37,615	72,401	350,472	9,316,199
Deposits from customers	2,926,263	3,717,190	795,948	13,545	84,553	7,537,499
Amounts due to an intermediate holding company	78,939	635	-	-	-	79,574
Derivative financial instruments	-	3,519	147	-	22	3,688
Financial liabilities included in other liabilities	35,920	68	-	-	5	35,993
Total liabilities	3,041,122	3,721,412	796,095	13,545	84,580	7,656,754
Net on-balance sheet position	2,365,728	(272,551)	(758,480)	58,856	265,892	1,659,445
Off-balance sheet net notional position	(713,145)	238,212	771,119	(48,838)	(241,748)	5,600

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.2 Foreign exchange risk (continued)

	HKD HK$'000	USD HK$'000	CNY HK$'000	JPY HK$'000	Others HK$'000	Total HK$'000
31 December 2019						
Cash and due from banks	1,648,202	935,133	70,057	20,381	116,855	2,790,628
Placements with banks	503,343	1,178,735	-	-	-	1,682,078
Derivative financial instruments	13	61	7,900	-	1,296	9,270
Loans and advances to customers	4,269,753	292,534	-	123,155	362,868	5,048,310
Debt instruments at fair value through other comprehensive income	175	-	-	-	-	175
Debt instruments at amortised cost	149,611	-	-	-	-	149,611
Financial assets included in other assets	186	15	-	-	-	201
Total assets	6,571,283	2,406,478	77,957	143,536	481,019	9,680,273
Deposits from customers	4,949,165	2,017,937	708,877	21,918	260,276	7,958,173
Amounts due to an intermediate holding company	76,485	551	-	-	-	77,036
Derivative financial instruments	20	3,420	-	161	1,435	5,036
Financial liabilities included in other liabilities	27,967	174	-	-	-	28,141
Total liabilities	5,053,637	2,022,082	708,877	22,079	261,711	8,068,386
Net on-balance sheet position	1,517,646	384,396	(630,920)	121,457	219,308	1,611,887
Off-balance sheet net notional position	92,501	(392,717)	642,755	(121,244)	(216,548)	4,747

At 31 December 2020, if HKD had weakened/strengthened by 1% against CNY with all other variables held constant, the profit before taxation for the year would have been approximately HK$126,000 lower/higher (2019: HK$118,000 lower/higher), mainly as a result of foreign exchange differences on translation of CNY denominated financial assets compensated by foreign exchange differences on translation of CNY denominated financial liabilities.

At 31 December 2020, if HKD had weakened/strengthened by 1% against JPY with all other variables held constant, the profit before taxation for the year would have been approximately HK$100,000 lower/higher (2019: HK$2,000 lower/higher), mainly as a result of foreign exchange differences on translation of JPY denominated financial assets compensated by foreign exchange differences on translation of JPY denominated financial liabilities.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk

Credit risk represents the loss that the Group would suffer if a client or counterparty fails to meet its contractual obligations. Credit exposures arise principally in loans and receivables, debt instruments at amortised cost, derivative financial instruments and other assets. The credit risk management and control are generally centralised in the RMD.

3.2.1 Loans and receivables

Majority of the Group's loans and receivables are loans and advances to customers.

The Group assesses credit risk of loans to corporates, individuals and financial institutions by performing credit assessment.

The credit risk management system of the Group comprises pre-trade and post-trade credit control functions.

Regarding the pre-trade credit control functions, the Group has policies and procedures in place to ensure that credits are granted to clients with appropriate creditworthiness. The Group has its own in-house assessment methodologies for evaluating the creditworthiness of its clients. The Group's credit approval process involves a detailed assessment of the client's creditworthiness and also the risks related to the specific type of credit facility applied for.

Credit limits are set up to cap the maximum credit exposures that the Group intends to assume over specified periods. The Group's credit policy and procedure also sets out the procedures for the approval of exceptional cases when the Group may assume exposures beyond the set limits.

The Group has maintained relationships with various financial institutions and other counterparties, and has credit limits in place for these counterparties with reference to the financial strengths.

Post-trade credit control encompasses exposure and collateral monitoring and reporting. The collaterals covering the credit risk exposure in case of default are subject to mark-to-market and monitoring on a regular basis in accordance with the collateral types.

As of 31 December 2020 and 2019, there was one impaired loan which was fully provided for.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Loans and receivables (continued)

(a) Loans and advances to customers neither overdue nor impaired

Loans and advances to customers that were neither overdue nor impaired are analysed by internal credit grades as follows:

	2020			2019		
	Pass	Special mention	Total	Pass	Special mention	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Loans and advances to customers	4,891,464	-	4,891,464	5,048,310	-	5,048,310

(b) Loans and advances to customers overdue but not impaired

There were no overdue but not impaired loans and advances to customers as at 31 December 2020 (2019: Nil).

(c) Impaired loans and advances to customers

Loans and advances to customers individually assessed to be impaired are analysed as follows:

	2020	2019
	HK$'000	HK$'000
Gross impaired loans and advances to customers which have been overdue for:		
- over one year	1,266	1,272
Gross impaired loans and advances to customers as a percentage of gross loans and advances to customers	0.03%	0.03%
Impairment allowances under individual assessment made in respect of such loans and advances to customers	1,266	1,272
Current market value of collateral held against the covered portion of such loans and advances to customers	-	-

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Loans and receivables (continued)

(c) Impaired loans and advances to customers (continued)

Classified or impaired loans and advances to customers are analysed as follows:

	2020 HK$'000	2019 HK$'000
Gross classified or impaired loans and advances to customers	1,266	1,272
Gross classified or impaired loans and advances to customers as a percentage of gross loans and advances to customers	0.03%	0.03%
Individually assessed impairment allowances made in respect of such loans and advances to customers	1,266	1,272

Classified or impaired loans and advances to customers represent loans and advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

3.2.2 Derivative financial instruments

Credit risk is inherent in derivative transactions entered by the Group.

The Group assesses credit risk of derivative counterparties using external credit ratings and internal credit assessment. The Group controls the credit exposures by imposing potential market exposure limits. At any one time, the amount subject to credit risk includes (i) the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive) and (ii) the potential future exposures of each counterparty from market movements. The credit risk exposure is monitored on a daily basis and collateral is obtained to mitigate the credit risk depending on credit assessment of the counterparty.

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

From client credit risk perspectives, the Group assesses credit risk of individuals by performing internal credit assessment. The Group controls the credit exposures by imposing trading limits, and the credit risk exposure is monitored on a daily basis and collateral is obtained to mitigate the credit risk depending on the derivative transactions.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments

The following tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net amount
31 December 2020	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets						
Derivative financial instruments	18	-	18	(18)	-	-

				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral pledged	Net amount
31 December 2020	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities						
Amounts due to an intermediate holding company	79,574	-	79,574	-	-	79,574
Derivative financial instruments	3,504	-	3,504	(18)	(40)	3,446

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net amount
31 December 2019	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets						
Derivative financial instruments	1,657	-	1,657	(1,657)	-	-

				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral pledged	Net amount
31 December 2019	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities						
Amounts due to an intermediate holding company	77,036	-	77,036	-	-	77,036
Derivative financial instruments	4,612	-	4,612	(1,657)	-	2,955

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

The Group 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 Group 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 has an intra-group arrangement agreement with its intermediate holding company (BOC International Holdings Limited) under which the Company transfers its payment obligations or indebtedness liabilities to the intermediate holding company. The intermediate holding company is entitled to set off payments, sums and/ or liabilities owed by it to any subsidiaries against any payments, sums and/ or liabilities owed to it by any subsidiaries. During the year, no offsetting payments on intragroup transactions have been made by the Company.

The Group does 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 consolidated statement of financial position.

3.2.4 Collateral

The Group has policies and practices in place to mitigate credit risk. The most traditional of these is the taking of collateral.

Term loans are generally secured by various forms of collaterals such as listed stocks, bonds, properties, insurance policies and deposits. For derivative transactions, generally the Group will require that non-investment grade financial institutions, non-financial institutions and individuals to provide collateral supporting the potential market exposure.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Maximum exposure to credit risk before collateral held or other credit enhancement

As at the end of the reporting periods, the maximum exposure to credit risk for each category of financial assets is the net carrying amount stated in the consolidated statement of financial position.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and receivables, debt instruments at amortised cost, derivatives as well as cash and bank balances based on the following:

- Secured term loans to individuals and corporates are fully backed by various types of collaterals, such as listed stocks, bonds, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts.

- Demand loan is a type of credit facility provided for our private banking clients. Demand loans are fully backed by various types of collaterals, such as listed stocks, bonds, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts.

- Debt instruments at amortised cost are Hong Kong Exchange Fund Bills. Exchange Fund Bills are Hong Kong dollar debt securities issued by the HKMA. They constitute direct, unsecured, unconditional and general obligations of the Hong Kong Special Administrative Region Government. No debt instruments at amortised cost were considered to be impaired.

- The Group enters into derivative transactions with a fellow subsidiary banking group of Bank of China Limited, BOCI Group companies and other financially strong banks. There was no impairment arising from derivative counterparties as at the end of the reporting periods.

- Cash and due from banks and placements with banks were deposited in reputable large commercial banks.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is not able to fund increases in assets or meet its obligations as they fall due without incurring unacceptable losses. This may be caused by the Group's inability to liquidate assets or to obtain funding to meet its liquidity needs. The problem could also be the result of a market disruption or liquidity squeeze whereby the Group may only be able to unwind specific exposures at significantly discounted values.

The objective of liquidity risk management is to ensure the availability of adequate funding at all times, so as to meet its obligations as and when they fall due, as well as maintain a sufficient stock of high quality liquid assets to cater for a funding crisis.

Governance Structure and Management Policies

The Group has set up Liquidity Risk Management Policy (the "Policy") to govern the overall liquidity risk management with aims to ensure the availability of adequate funding at all times, so as to meet its payment obligations as and when they fall due, as well as maintain a sufficient stock of high quality liquid assets to cater for a funding crisis.

The Policy is approved by ALCO, EC, RC and the Board ultimately. The ALCO, authorised by EC, is the governing body responsible for the implementation of risk management process to facilitate the identification, measurement, monitoring, reporting and control of liquidity risk.

Liquidity Risk Management Strategy

To manage liquidity risk, the Group performs the following strategies and approaches:

a. To maintain ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events;

b. To maintain an effective internal control system to identify, measure, monitor and control the extent and nature of liquidity risk arising from the Group's funding operations;

c. To ensure the liquidity management of the Group complies with regulatory guidelines and requirements and internal limits;

d. To establish a liquidity book (High Quality Liquid Asset ("HQLA")) for liquidity and emergency funding needs; and

e. To develop and maintain a contingency funding plan that addresses the Group's liquidity under stressed market conditions and specify actions and procedures to be implemented under liquidity stress.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

Liquidity Risk Management Framework

The liquidity risk management framework of the Group to identify, measure, monitor and control liquidity risks, that mainly includes the following aspects and approaches:

1. Liquidity Risk Tolerance

   The Group adopts a series of liquidity risk management tools as a matrix to monitor and control the Group's overall liquidity risk in normal and stressed conditions. The risk limit framework includes Liquidity Maintenance Ratio ("LMR", both regulatory and internal limit), maturity mismatch ratio, loan to client deposit ratio, wholesale funding dependency ratio, FX swap to client deposit ratio, funding source concentration from intragroup companies, liquidity book (HQLA portfolio) framework, and monthly cumulative cashflow and stress test, etc. Management action trigger ("MAT") control for funding size from BOCI Securities Limited's client accounts is also set up.

   The Group sets a more stringent internal limit on the LMR than the HKMA regulatory minimum liquidity requirement.

2. Liquidity Stress Testing

   Monthly cashflow analysis for the Group under both normal and stressed conditions are performed in the monthly liquidity stress testing, in order to identify sources of potential liquidity strain and ensure compliance to the limit structure under different stress scenarios. Stress testing analysis for the LMR is also performed on a monthly basis, in order to analyze the potential impact to the LMR level under stress scenarios.

3. Intraday Liquidity Risk Management

   The objective of intraday liquidity risk management for the Group is to ensure its payment obligations are met on a timely basis when they become due and to avoid any potential shortfall of cashflow on intraday basis and minimise the need of intraday or overnight borrowings.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

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

	On demand HK$'000	Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2020							
Cash and due from banks	536,876	2,132,613	-	-	-	-	2,669,489
Placements with banks	-	-	1,397,339	-	-	-	1,397,339
Derivative financial instruments	-	788	2,683	3,746	-	-	7,217
Loans and advances to customers	4,888,866	2,248	320	30	-	-	4,891,464
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	175	175
Debt instruments at amortised cost	-	299,987	49,990	-	-	-	349,977
Financial assets included in other assets	-	388	72	67	-	11	538
Total assets	5,425,742	2,436,024	1,450,404	3,843	-	186	9,316,199
Deposits from customers	-	5,049,106	2,305,394	182,999	-	-	7,537,499
Amounts due to an intermediate holding company	79,574	-	-	-	-	-	79,574
Derivative financial instruments	-	3,688	-	-	-	-	3,688
Financial liabilities included in other liabilities	1,605	2,203	-	23,330	3,331	5,524	35,993
Total liabilities	81,179	5,054,997	2,305,394	206,329	3,331	5,524	7,656,754
Net liquidity gap	5,344,563	(2,618,973)	(854,990)	(202,486)	(3,331)	(5,338)	1,659,445

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

	On demand HK$'000	Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2019							
Cash and due from banks	658,727	2,131,901	-	-	-	-	2,790,628
Placements with banks	-	-	1,682,078	-	-	-	1,682,078
Derivative financial instruments	-	2,153	4,465	2,652	-	-	9,270
Loans and advances to customers	5,044,229	3,960	99	22	-	-	5,048,310
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	175	175
Debt instruments at amortised cost	-	-	149,611	-	-	-	149,611
Financial assets included in other assets	-	-	174	14	-	13	201
Total assets	5,702,956	2,138,014	1,836,427	2,688	-	188	9,680,273
Deposits from customers	-	3,771,792	3,476,231	710,150	-	-	7,958,173
Amounts due to an intermediate holding company	77,036	-	-	-	-	-	77,036
Derivative financial instruments	-	3,961	111	964	-	-	5,036
Financial liabilities included in other liabilities	1,605	1,429	12,761	6,822	-	5,524	28,141
Total liabilities	78,641	3,777,182	3,489,103	717,936	-	5,524	8,068,386
Net liquidity gap	5,624,315	(1,639,168)	(1,652,676)	(715,248)	-	(5,336)	1,611,887

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and derivative financial instruments that will be settled on a gross basis by remaining contractual maturities at the end of the reporting periods.

The Group's derivative financial instruments, including foreign exchange forwards, swaps, options and interest rate swaps, will be settled on a gross basis.

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on the expected undiscounted cash flows.

	On demand/ Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2020						
Non-derivative cash outflow liabilities						
Deposits from customers	5,049,166	2,305,977	183,919	-	-	7,539,062
Amounts due to an intermediate holding company	79,574	-	-	-	-	79,574
Financial liabilities included in other liabilities	3,808	-	23,330	3,331	5,524	35,993
Total	5,132,548	2,305,977	207,249	3,331	5,524	7,654,629
Derivative financial instruments cash flow						
Settled on a gross basis						
Total inflow	1,610,761	287,988	87,894	-	-	1,986,643
Total outflow	(1,613,540)	(284,300)	(83,203)	-	-	(1,981,043)
	(2,779)	3,688	4,691	-	-	5,600

	On demand/ Up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Between 1 to 5 years HK$'000	Undated/ Indefinite/ Overdue HK$'000	Total HK$'000
31 December 2019						
Non-derivative cash outflow liabilities						
Deposits from customers	3,774,515	3,485,036	714,508	-	-	7,974,059
Amounts due to an intermediate holding company	77,036	-	-	-	-	77,036
Financial liabilities included in other liabilities	3,034	12,761	6,822	-	5,524	28,141
Total	3,854,585	3,497,797	721,330	-	5,524	8,079,236
Derivative financial instruments cash flow						
Settled on a gross basis						
Total inflow	1,694,342	374,893	222,379	-	-	2,291,614
Total outflow	(1,669,140)	(375,105)	(240,621)	-	-	(2,284,866)
	25,202	(212)	(18,242)	-	-	6,748

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category

The carrying amount of each of the categories of financial instruments as at the end of the reporting period are as below:

At 31 December 2020	Financial assets at fair value through profit or loss HK$'000	Financial assets through other comprehensive income HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets				
Cash and due from banks	-	-	2,669,489	2,669,489
Placements with banks	-	-	1,397,339	1,397,339
Derivatives financial instruments	7,217	-	-	7,217
Loans and advances to customers	-	-	4,891,464	4,891,464
Debt instruments at fair value through other comprehensive income	-	175	-	175
Debt instruments at amortised cost	-	-	349,977	349,977
Financial assets included in other assets	-	-	538	538
Total financial assets	7,217	175	9,308,807	9,316,199

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities			
Deposits from customers	-	7,537,499	7,537,499
Amounts due to an intermediate holding company	-	79,574	79,574
Derivative financial instruments	3,688	-	3,688
Financial liabilities included in other liabilities	-	35,993	35,993
Total financial liabilities	3,688	7,653,066	7,656,754

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category (continued)

At 31 December 2019	Financial assets at fair value through profit or loss HK$'000	Financial assets through other comprehensive income HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets				
Cash and due from banks	-	-	2,790,628	2,790,628
Placements with banks	-	-	1,682,078	1,682,078
Derivatives financial instruments	9,270	-	-	9,270
Loans and advances to customers	-	-	5,048,310	5,048,310
Debt instruments at fair value through other comprehensive income	-	175	-	175
Debt instruments at amortised cost	-	-	149,611	149,611
Financial assets included in other assets	-	-	201	201
Total financial assets	9,270	175	9,670,828	9,680,273

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities			
Deposits from customers	-	7,958,173	7,958,173
Amounts due to an intermediate holding company	-	77,036	77,036
Derivative financial instruments	5,036	-	5,036
Financial liabilities included in other liabilities	-	28,141	28,141
Total financial liabilities	5,036	8,063,350	8,068,386

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair value of financial assets and liabilities

For financial instruments that are not measured at fair value, including debt instruments at amortised cost, loans and receivables, cash and cash equivalents, amounts due to an intermediate holding company, other assets, other liabilities, deposits from customers and deposits and balances from banks, their fair values approximate the carrying amounts.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement", described as follows, with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like bond futures.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of debt securities without active secondary markets, the over-the-counter ("OTC") derivative contracts and issued structured notes. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt instruments with significant unobservable components.

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

As at the end of the reporting periods, all debt instruments at fair value through other comprehensive income were classified as Level 2 as they are club debentures without active secondary markets. In addition, all derivative financial instruments are OTC derivative contracts and they are classified as Level 2. OTC derivative contracts include forward, swap and option contracts on foreign exchange or interest rate. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable market data, including interest rates, foreign exchange rates and volatilities.

There were no level 3 instruments during and as at the end of the reporting periods.

During 2020 and 2019, there were no transfers between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities.

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel or systems, or from external events. An operational risk management framework, approved by the RC and the Board, has been developed with the objective to ensure that operational risks are properly identified, assessed, controlled, measured, monitored and reported in a structured, systematic and consistent manner.

Respective business lines are responsible for managing and reporting operational risks specific to their units by applying various tools such as risk and control assessment, key risk indicators and operational risk events reporting mechanism to identify, assess and control the risks inherent in their business processes, activities and products. Risk and control assessment can help identify and assess risk within a business/ function and evaluate the effectiveness of the controls that are in place to manage these risks. Key risk indicators with pre-defined escalation triggers are employed to facilitate risk monitoring in a forward-looking manner. Risk events, including any significant incidents that may result in different risk impacts such as customer, regulatory, legal and financial impacts to the Group, are required to be reported based on certain thresholds established. The RMD regularly evaluates the operational risk profile, records operational risk data and reports operational risk issues to the EC and the Board of the Company to make sure a robust operational risk framework exists.

Each new product or service introduced is subject to a rigorous risk review and sign-off process where all relevant risks including operational risk are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Modification of existing products or services is also subject to a similar process. Major operational risk mitigation programmes include business continuity management.

3. FINANCIAL RISK MANAGEMENT (continued)

3.7 Capital management

The objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile.

The Group has established capital policy, which sets out:

- Capital management objective;
- Roles and responsibilities of various departments/ divisions in capital management;
- Internal capital target;
- Capital allocation and measurement; and
- Remedial action and procedures

The Group adopts the standardised approach (basic approach before 1 September 2014), standardised approach, basic indicator approach and solo basis to calculate its credit risk, market risk, operational risk and capital adequacy ratio respectively.

As at 31 December 2020, the capital adequacy ratio was at 39.94% (2019: 36.46%) with risk-weighted assets increased to approximately HK$4,151,964,000 (2019: HK$4,413,402,000).

The detailed information on the Group's capital management is disclosed in note 2 to note 5 and note 8 to note 10 of the unaudited supplementary information.

4. NET INTEREST INCOME

	2020 HK$	2019 HK$
Interest income		
- loans and advances to customers	95,595,787	129,141,573
- due from banks and other financial institutions	68,062,938	123,960,756
- debt instruments at amortised cost	1,398,477	2,446,480
	165,057,202	255,548,809
Interest expense		
- deposits from customers	(53,555,768)	(116,890,158)
- deposits and balances from banks	(18,309)	(55,548)
- other borrowings	(843)	(3,652)
	(53,574,920)	(116,949,358)
Net interest income	111,482,282	138,599,451

No interest income was recognised on impaired loans and advances to customers during the year ended 31 December 2020 (2019: Nil).

During the year ended 31 December 2020 and 2019, all interest income was calculated using the effective interest rate method.

5. NET FEE AND COMMISSION INCOME

	2020 HK$	2019 HK$
Credit lines and loan servicing	-	3,913,592
Investment services fees received from fellow subsidiaries (note 22)	178,988,200	121,138,871
Others	5,354,185	963,562
Fee and commission income	184,342,385	126,016,025
Less: fee and commission expense	(191,004)	(6,648,474)
Net fee and commission income	184,151,381	119,367,551

6. NET TRADING GAINS

	2020 HK$	2019 HK$
Foreign exchange	11,827,638	11,277,583

Foreign exchange net trading gains include gains and losses from spot, forward, swap and option contracts.

7. DIRECTORS' EMOLUMENTS

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

The directors receive no directors' emoluments from the Company. Instead the directors received emoluments from an intermediate holding company and a fellow subsidiary, which totals HK$20,138,624 (2019: HK$20,216,598), part of which is in respect of their services to the intermediate holding company and its subsidiaries. Five out of the seven directors during the year consider it impracticable to apportion this amount between their services to the Group and their services to the Company's intermediate holding company and the fellow subsidiaries. As a result, no apportionment is made for the five directors. The other two directors can practically apportion their services to the Company. The apportioned directors' emoluments amounted to HK$11,094,429 (2019: HK$11,171,429). There were no termination benefits (2019: Nil) and retirement benefits (2019: Nil) granted in 2020.

During the year, there were no loans to directors which are required to be disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (2019: Nil).

8. OPERATING EXPENSES

	2020 HK$	2019 HK$
Management fee paid (note 22)	133,032,251	132,802,131
Staff costs	94,169,101	75,687,302
Auditor's remuneration	402,000	262,000
Operating lease expenses recharged by intermediate holding company (note 22)	2,490,986	5,378,395
Information technology and communications expenses	8,603,730	7,627,960
Miscellaneous expenses	7,613,859	10,356,101
	246,311,927	232,113,889

9. NET CHARGE/(RELEASE) OF IMPAIRMENT ALLOWANCES

		2020			
HK$	Notes	Stage 1	Stage 2	Stage 3	Total
Cash and due from banks	11	24,031	-	-	24,031
Placements with banks	12	69,858	-	-	69,858
Loans and advances to customers	14	(169)	-	-	(169)
Debt instruments at amortised cost	15	2,930	-	-	2,930
Debt instruments at fair value through other comprehensive income	15	3	-	-	3
Other assets	16	6	-	-	6
Net impairment charged		96,659	-	-	96,659

		2019			
HK$	Notes	Stage 1	Stage 2	Stage 3	Total
Cash and due from banks	11	(7,746)	-	-	(7,746)
Placements with banks	12	(65,493)	-	-	(65,493)
Loans and advances to customers	14	25	-	-	25
Debt instruments at amortised cost	15	(888)	-	-	(888)
Debt instruments at fair value through other comprehensive income	15	(62)	-	-	(62)
Other assets	16	(637)	-	-	(637)
Net impairment release		(74,801)	-	-	(74,801)

10. INCOME TAX EXPENSE

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

The amount of taxation charged to the consolidated income statement represents:

	2020 HK$	2019 HK$
Current income tax:		
- Hong Kong profits tax	10,084,851	6,127,689
- Under provision in prior years	-	230,079
- Deferred tax (credit)/charge	(13,082)	15,847
	10,071,769	6,373,615

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

	2020 HK$	2019 HK$
Profit before taxation	61,223,121	37,205,497
Tax calculated at statutory tax rate at 16.5% (2019: 16.5%)	10,101,815	6,138,907
Under provision in prior years	-	230,079
Income not subject to taxation	(28,000)	-
Expenses not deductible for tax	-	720
Temporary difference not recognised	(2,046)	3,909
Income tax expense	10,071,769	6,373,615

As at 31 December 2020, deferred tax assets of HK$52,543 have been recognised in respect of temporary differences arising from fixed assets and impairment allowances (2019: HK$39,461).

11. CASH AND DUE FROM BANKS

	2020 HK$	2019 HK$
Cash and due from banks	536,876,661	658,727,897
Placements with banks maturing less than one month	2,132,658,709	2,131,922,063
Less: allowance for impairment losses – Stage 1	(45,995)	(21,964)
	2,669,489,375	2,790,627,996

The movement in provision for impairment against cash and due from banks is as follows:

	2020 HK$	2019 HK$
Beginning of year - Stage 1	21,964	29,710
Net charge/(release) during the year - Stage 1	24,031	(7,746)
At 31 December	45,995	21,964

12. PLACEMENTS WITH BANKS

	2020 HK$	2019 HK$
Placements with banks maturing between one and twelve months	1,397,457,425	1,682,126,900
Less: allowance for impairment losses – Stage 1	(118,611)	(48,753)
	1,397,338,814	1,682,078,147

The movement in provision for impairment against placements with banks is as follows:

	2020 HK$	2019 HK$
Beginning of year - Stage 1	48,753	114,246
Net charge/(release) during the year - Stage 1	69,858	(65,493)
At 31 December	118,611	48,753

There were no overdue or impaired bank placements as at 31 December 2020 (2019: Nil).

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following derivative instruments for risk management purposes (hedging) and held for trading:

Derivatives	Description
Forwards and futures	These instruments are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardised contracts transacted on regulated exchanges. The major type of forward and futures transactions undertaken by the Group is foreign exchange forward contracts.
Swaps	These are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC.
Options	Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right.

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The contractual/ notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/ notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

No hedge accounting was adopted by the Group to account for its transaction in derivatives in 2020 and 2019.

Derivatives financial instruments entered by the Group are mainly for customer needs and for its own accounts. The Group offers its customers products with embedded derivatives. Such embedded derivatives, if not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss, are treated as separate derivatives and included below, as held for trading. The Group also trades derivatives, mainly foreign exchange contracts, for its own accounts to manage the foreign currency risk of the Group.

As at the end of the reporting periods, the Group has the following derivatives positions:

	Notional amount HK$'000	Fair value assets HK$	Fair value liabilities HK$
31 December 2020			
Derivatives held for trading			
- Foreign exchange forward and swap	1,963,787	7,175,844	3,647,099
- Foreign exchange options	22,856	41,005	41,005
		7,216,849	3,688,104
31 December 2019			
Derivatives held for trading			
- Foreign exchange forward and swap	2,252,850	8,914,375	4,679,626
- Foreign exchange options	64,959	356,113	356,113
		9,270,488	5,035,739

14. LOANS AND ADVANCES TO CUSTOMERS

	2020 HK$	2019 HK$
Loans and advances to customers:		
- individuals	4,141,789,350	4,221,799,967
- corporates	750,941,487	827,782,458
	4,892,730,837	5,049,582,425
Less: allowance for impairment losses	(1,267,058)	(1,272,911)
Total	4,891,463,779	5,048,309,514

The carrying amounts of loans and advances to customers approximated their fair value. Included in the balance, there were overdue loans of HK$1,266,184 as at 31 December 2020 (2019: HK$1,271,868).

The movement in provision for impairment against loans and advances to customers is as follows:

	HKFRS 9		
HK$	Stage 1	Stage 3	Total
At 1 January 2019	1,018	1,278,990	1,280,008
Net charge during the year	25	-	25
Exchange difference	-	(7,122)	(7,122)
At 31 December 2019 and 1 January 2020	1,043	1,271,868	1,272,911
Net release during the year	(169)	-	(169)
Exchange difference	-	(5,684)	(5,684)
At 31 December 2020	874	1,266,184	1,267,058

As at 31 December 2020, loans and advances to customers classified under stage 1 and stage 3 amounted to HK$4,891,464,653 and HK$1,266,184 (2019: HK$5,048,310,557 and HK$1,271,868) respectively.

15. FINANCIAL ASSETS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK$	2019 HK$
Debt instruments at fair value through other comprehensive income		
Club debentures, unlisted	175,000	175,000
Less: allowance for impairment loss – Stage 1	(6)	(3)
	174,994	174,997
Analysed by type of issuers as follows:		
Corporate entities, unrated	174,994	174,997

The movement in provision for impairment against debt instruments at fair value through other comprehensive income is as follows:

	2020 HK$	2019 HK$
Beginning of year – Stage 1	3	65
Net charge/(release) during the year – Stage 1	3	(62)
At 31 December	6	3

15. FINANCIAL ASSETS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	2020 HK$	2019 HK$
Debt instruments at amortised cost		
Hong Kong Exchange Fund Bills, unlisted	349,992,303	149,623,764
Less: allowance for impairment loss – Stage 1	(15,784)	(12,854)
	349,976,519	149,610,910
Analysed by type of issuers as follows:		
Sovereigns	349,976,519	149,610,910
Analysed by issue specific credit rating as follows:		
Fitch, AA+ to AA-	349,976,519	149,610,910

15. FINANCIAL ASSETS OTHER THAN THOSE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The movement in debt instruments at amortised cost is summarised as follows:

HK$	Debt instruments at amortised cost
At 1 January 2019	149,360,196
Additions	297,803,346
Redemptions	(300,000,000)
Others	2,447,368
At 31 December 2019	149,610,910
At 1 January 2020	149,610,910
Additions	1,098,970,062
Redemptions	(900,000,000)
Others	1,395,547
At 31 December 2020	349,976,519

The movement in provision for impairment against debt instruments at amortised cost is as follows:

	2020 HK$	2019 HK$
Beginning of year – Stage 1	12,854	13,742
Net charge/(release) during the year – Stage 1	2,930	(888)
At 31 December	15,784	12,854

There were no overdue debt instruments at fair value through other comprehensive income and debt instruments at amortised cost as at 31 December 2020 (2019: Nil).

16. OTHER ASSETS

	2020 HK$	2019 HK$
Deposits, prepayments and other receivables	8,614,569	6,613,137
Less: allowance for impairment losses – Stage 1	(7)	(1)
	8,614,562	6,613,136

The movement in provision for impairment against other assets is as follows:

	2020 HK$	2019 HK$
Beginning of year – Stage 1	1	638
Net charge/(release) during the year – Stage 1	6	(637)
At 31 December	7	1

17. DEPOSITS FROM CUSTOMERS

	2020 HK$	2019 HK$
Time and call deposits	7,526,070,495	7,953,874,951
Currency-linked deposits	11,428,256	4,297,736
	7,537,498,751	7,958,172,687

18. AMOUNTS DUE TO AN INTERMEDIATE HOLDING COMPANY

The amounts due to an intermediate holding company are interest free, unsecured and repayable on demand.

19. SHARE CAPITAL

	2020 HK$	2019 HK$
Issued and fully paid: 1,000,000 (2019: 1,000,000) ordinary shares	1,000,000,000	1,000,000,000

20. KEY ELEMENTS OF THE 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 or loss and its financial resources (including capital/ liquidity resources) and (ii) descriptions of its own risk profile as required by the Banking (Disclosure) Rules. Further details of key elements of the Disclosure Policy will be shown in note 21 of the unaudited supplementary information.

21. CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of profit before taxation to net cash generated from /(used in) operating activities:

	2020 HK$	2019 HK$
Profit before taxation	61,223,121	37,205,497
Interest income from debt instruments at amortised cost	(1,398,477)	(2,446,480)
Net charge/(release) of impairment allowances	96,659	(74,801)
Decrease/(increase) in balances and placements with banks with original maturity over three months	1,148,667,021	(967,408,766)
Decrease in derivative financial instrument assets	2,053,639	2,007,635
(Increase)/decrease in other assets	(2,001,432)	371,993
Decrease/(increase) in loans and advances to customers	156,845,904	(749,542,369)
Decrease in deposits from customers	(420,673,936)	(668,723,799)
Increase/(decrease) in amounts due to an intermediate holding company	2,538,486	(7,239,464)
Increase/(decrease) in other liabilities	7,851,643	(1,020,415)
Decrease in derivative financial instrument liabilities	(1,347,635)	(3,745,199)
Hong Kong profits tax paid	(12,001,975)	-
Net cash generated from /(used in) operating activities	941,853,018	(2,360,616,168)
Cash flows from operating activities included:		
-Interest received	186,048,975	244,928,024
-Interest paid	(76,503,807)	(109,018,880)

22. RELATED PARTY TRANSACTIONS

Other than related party transactions disclosed elsewhere in the consolidated financial statements, the major transactions with related parties, which the Group entered into during the year are summarised as follows:

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries and Bank of China Limited and its subsidiaries

	Notes	BOC International Holdings Limited and its subsidiaries HK$	Bank of China Limited and its subsidiaries HK$
2020			
Consolidated income statement			
Interest income	i	12,996,017	54,493,422
Interest expense	ii	(43,901,413)	(15,417)
Fees and commission income	iii	178,988,200	3,867,456
Management fee paid	iv	(133,032,251)	-
Operating lease expenses recharged by intermediate holding company	vii	(2,490,986)	-
2019			
Consolidated income statement			
Interest income	i	5,506,427	117,393,334
Interest expense	ii	(85,314,453)	(52,421)
Fees and commission income	iii	121,138,871	3,918,328
Management fee paid	iv	(132,802,131)	-
Operating lease expenses recharged by intermediate holding company	vii	(5,378,395)	-

22. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries and Bank of China Limited and its subsidiaries (continued)

	Notes	BOC International Holdings Limited and its subsidiaries HK$	Bank of China Limited and its subsidiaries HK$
2020			
Consolidated statement of financial position			
Cash and due from banks	i	-	2,022,670,713
Placements with banks	i	-	1,164,775,778
Derivative financial instruments	v	7,149,304	16,137
Other assets	iii	-	-
Deposits from customers	ii	118,917,699	2,137,910
Derivative financial instruments	v	184,043	3,463,026
Other liabilities		-	-
2019			
Consolidated statement of financial position			
Cash and due from banks	i	-	2,781,839,706
Placements with banks	i	-	1,682,126,900
Derivative financial instruments	v	7,217,762	1,682,263
Other assets	iii	174,483	-
Deposits from customers	ii	990,008,507	2,123,816
Derivative financial instruments	v	272,466	4,401,658
Other liabilities		-	3,867,401

(i) Interest income from bank deposits, bank balances and foreign exchange swap contracts

In the ordinary course of business, the Group placed its cash and due from banks and bank placements with Bank of China Limited and its related entities. These deposits were conducted at prices and terms that were no more favourable than those contracted with other third party customers. At 31 December 2020, cash and deposits of HK$3,187 million (2019: HK$4,464 million) were placed in Bank of China Limited and its subsidiaries.

In the ordinary course of business, the Company entered into foreign exchange swap contracts with related parties for funding purposes. These transactions were executed at the relevant market rates at the time of the transactions.

22. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries and Bank of China Limited and its subsidiaries (continued)

(ii) Interest expense on deposits from customers and deposits and balances from banks

In the ordinary course of business, the Group accepted deposits and borrowing from related parties. These transactions are entered into at the relevant market rates at the time of the transactions and at prices and terms that were no more favourable than those contracted with other third party customers.

(iii) The Company received investment services fees from its fellow subsidiaries, BOCI Securities Limited and BOCI Private Wealth Management Limited, for the services provided by the Company in the capacity as an agent to introduce client businesses to the fellow subsidiaries. The Company received loan servicing fee income from an overseas branch of Bank of China Limited and the corresponding account receivable is included in other assets.

(iv) The Company has an agreement with its intermediate holding company, BOC International Holdings Limited, under which the intermediate holding company provides administration and support services to the Company in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by both parties giving not less than one month's written notice. During the year, HK$108,554,043 (2019: HK$104,180,068) was paid to the intermediate holding company by the Company. In relation to the same agreement, HK$24,478,208 (2019: HK$28,622,063) was paid to BOC International Holdings Limited for key personnel and senior management services provided to the Company.

(v) In the ordinary course of business, the Company entered into exchange rate contracts with the related entities. These transactions were executed at the relevant market rates at the time of the transactions.

(vi) Directors' emoluments are disclosed in note 7 to the consolidated financial statements. Other key management compensation disclosed pursuant to CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA is included in the unaudited supplementary information.

(vii) In the ordinary course of business, the intermediate holding company, BOC International Holdings Limited, has lease agreements with Bank of China Limited and its subsidiaries. The Group was recharged for part of the operating lease rental by its intermediate holding company at the relevant market rate at the time of the transaction.

22. RELATED PARTY TRANSACTIONS (continued)

(b) Transaction with BOC Poverty Relief and Education Charity Fund Limited

BOC International Holdings Limited, an intermediate holding company, has established a charitable fund, named BOC Poverty Relief and Education Charity Fund Limited (the "Fund"), in 2008 and registered with Inland Revenue Department of Hong Kong SAR Government.

During the year, the Group accepted deposits from the Fund. As at 31 December 2020, the Fund has not placed deposits to the Group (2019: HK$42,988,596).

23. COMMITMENTS

As at 31 December 2020, the Group has no irrevocable loan commitment (2019: Nil) and no forward deposits placed (2019: Nil).

24. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group's consolidated financial statements and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

(a) Impairment allowances

In determining ECL under HKFRS 9, judgement has been applied in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and assessment of future economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities. The probability of default ("PD") and loss given default ("LGD") models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. Since the outbreak of COVID-19 starting early 2020, the criteria for ECL assessments and the economic conditions have been regularly updated with the considerations of the likelihood of further economic downturn and the negative impacts on the credit risk of the customers.

24. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(a) Impairment allowances (continued)

Definition of default and credit-impaired assets

Default under the definition of HKFRS 9 is considered occurred when one of the following conditions is met:

- Loans or receivables which are considered uncollectible after exhausting all collection efforts, have no asset value and have already been classified as "loss";
- A debtor with difficulty in repayment applies for debt restructuring to cut the outstanding debt; and
- Loans or receivables require to be written off as specified by the local regulatory authorities.

Staging criteria

Movement between Stages 1, 2 and 3 is based on a set of predefined criteria whereas the Group has adopted a guideline to identify significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition that is consistent with the internal credit risk management strategy. The criteria included, but not limited to, the following elements:

- External/internal credit rating;
- Days past due record;
- Loan classification for loan portfolio; and
- Other credit risk events, such as margin call, force liquidation, bankruptcy.

Multiple scenarios and forward-looking information

ECL is calculated as a probability-weighted product of the PD, LGD and present value of exposure at default discounted at effective interest rate across scenarios. Three scenarios are adopted in the probability-weighted ECL which included the Baseline, Upside, and Downside scenarios which presented different severity under the respective macroeconomic scenarios.

The Group considers both historical loss experience and current observable data, and uses reasonable and supportable information of future economic forecasts to estimate the amount of ECL. The Group adopted macroeconomic forecast data for countries/regions that have material impact to the Group's business, namely Hong Kong, China, United State, United Kingdom, and EU27 (27 European countries include Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland and Sweden) . Besides, with reference to the macroeconomic factors ("MEF") normally adopted in International Monetary Fund ("IMF") stress testing, 6 macroeconomic factors are shortlisted in the forward-looking model, namely gross domestic product ("GDP"), consumer price index ("CPI"), unemployment rate, property price index, equity price index, and interest rate. The Group adopted MEF forecasts and probability data from external vendor to ensure independence for unbiased ECL measurement.

24. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

25. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting periods are as follows:

	2020 HK$	2019 HK$
ASSETS		
Cash and due from banks	2,669,489,375	2,790,627,996
Placements with banks	1,397,338,814	1,682,078,147
Derivative financial instruments	7,216,849	9,270,488
Loans and advances to customers	4,891,463,779	5,048,309,514
Debt instruments at fair value through other comprehensive income	174,994	174,997
Debt instruments at amortised cost	349,976,519	149,610,910
Investment in a subsidiary	-	136
Deferred tax assets	52,543	39,461
Other assets	8,614,562	6,613,136
Total assets	9,324,327,435	9,686,724,785
LIABILITIES		
Deposits from customers	7,537,498,751	7,958,172,687
Amounts due to an intermediate holding company	79,574,047	76,865,997
Derivative financial instruments	3,688,104	5,035,739
Tax payable	5,341,298	7,258,422
Other liabilities	35,992,572	28,140,929
Total liabilities	7,662,094,772	8,075,473,774
EQUITY		
Capital and reserves attributable to the Company's equity holder		
Share capital	1,000,000,000	1,000,000,000
Reserves	662,232,663	611,251,011
	1,662,232,663	1,611,251,011
Total liabilities and equity	9,324,327,435	9,686,724,785

Tang Fong Chai Francis
Director

Geng Min Catherine
Secretary

Qian Feng
Director

Wang Zhongze
Director

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

Note:

A summary of the Company's reserve is as follows:

	Regulatory reserve[1] HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2019	42,962,197	537,452,570	580,414,767
Profit for the year	-	30,836,244	30,836,244
Total comprehensive income for the year	-	30,836,244	30,836,244
Transferred to regulatory reserve[2]	7,479,059	(7,479,059)	-
Balance at 31 December 2019 and 1 January 2020	50,441,256	560,809,755	611,251,011
Profit for the year	-	50,981,652	50,981,652
Total comprehensive income for the year	-	50,981,652	50,981,652
Transferred from regulatory reserve[2]	(1,553,463)	1,553,463	-
Balance at 31 December 2020	48,887,793	613,344,870	662,232,663

[1] As at 31 December 2020, HK$48,887,793 (2019: HK$50,441,256) was set aside as the regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

[2] During the year, the Company transferred HK$1,553,463 from the regulatory reserve to the retained earnings (2019: transferred HK$7,479,059 from the retained earnings to the regulatory reserve).

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

1. KEY PRUDENTIAL RATIOS

		31/12/2020	30/09/2020	30/06/2020	31/03/2020	31/12/2019
	Regulatory capital (amount)	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
1	Common Equity Tier 1 (CET1)	1,613,292	1,638,932	1,602,603	1,584,037	1,560,771
2	Tier 1	1,613,292	1,638,932	1,602,603	1,584,037	1,560,771
3	Total capital	1,658,222	1,686,121	1,650,589	1,633,494	1,609,191
	RWA (amount)	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
4	Total RWA	4,151,964	4,302,600	4,664,996	4,925,539	4,413,402
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	38.86%	38.09%	34.35%	32.16%	35.36%
6	Tier 1 ratio (%)	38.86%	38.09%	34.35%	32.16%	35.36%
7	Total capital ratio (%)	39.94%	39.19%	35.38%	33.16%	36.46%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)[1]	0.555%	0.570%	0.592%	0.579%	1.136%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirement (%)	3.055%	3.070%	3.092%	3.079%	3.636%
12	CET1 available after meeting the AI's minimum capital requirements (%)	31.94%	31.19%	27.38%	25.16%	28.46%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure (HK$'000)	9,295,138	9,647,196	10,064,678	11,021,925	9,659,380
14	LR (%)	17.36%	16.99%	15.92%	14.37%	16.16%

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31 December 2020

1. KEY PRUDENTIAL RATIOS (continued)

		31/12/2020	30/09/2020	30/06/2020	31/03/2020	31/12/2019
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	49.69%	51.41%	52.94%	51.20%	48.67%
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

In accordance with the Banking (Capital) Rules effective from 1 January 2007, the Company adopts the standardised approach, standardised approach, basic indicator approach and solo basis to calculate its credit risk, market risk, operational risk and capital adequacy ratio respectively.

[1] The applicable jurisdictional countercyclical capital buffer (CCyB) ratio for Hong Kong used in the calculation of CCyB buffer requirement was 1.0% for for 1Q 2020 to 4Q 2020 and 2% at 2019 Q4. The reduction was in accordance with the announcements made by the Hong Kong Monetary Authority on 16 March 2020.

The subsidiary of the Company (refer to Note 1 of the consolidated financial statements) is not included in the consolidation group for regulatory purposes in respect of capital adequacy calculation in accordance with the Banking (Capital) Rules. For accounting purposes, the subsidiary is consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountant Ordinance.

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA")

(a) Overview of risk management

The Company identifies, assesses and manages risk from a macroeconomic perspective, as well as creates values through professional, effective risk management, and supports the business strategy. The Company's activities expose it to a variety of risks: market risk, credit risk, operational risk, liquidity risk, legal risk, compliance risk, reputational risk and strategic risk. The Company establishes the comprehensive risk management system suitable with the business strategy and global systematic importance statue, improves governance, prefers mechanisms, optimises operation processes, develops risk management technologies and tools, identifies, measures, reports, controls and mitigates all materials risks in time, builds the economic capital management system step by step, and controls the risk level within the scope set by the risk appetite.

The Company establishes a comprehensive organization structure with both decision-making and control functions, enabling the Board of Directors (the "Board") and the Senior Management (led by the Chief Executive (the "CE")) to maintain transparent, accountable, cost efficient and effective functions.

The Board is responsible for setting the fundamental strategic goals and risk vision. The Board appoints the Risk Committee (the "RC") and the Audit Committee (the "AC"), which assist the Board in overseeing the Company's risk management functions.

RC is responsible for assisting the Board in fulfilling their oversight responsibilities by providing guidance regarding the risk governance and the development of acceptable risk profile. On the other hand, AC is responsible for assisting the Board in fulfilling their oversight responsibilities by monitoring the entire risk management process. AC is also responsible for ensuring the independence of the internal and external auditors.

The Executive Committee (the "EC") is composed of the CE, Alternate Chief Executive, Chief Operating Officer, Chief Risk Officer, Head of Compliance, Head of Investment, Head of Finance, AML Compliance Officer and Head of Sales. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and operation of the Risk Control and Credit Committee (the "RCCC"), Asset and Liability Committee (the "ALCO") and New Business and Product Committee (the "NBPC").

The Company's risk appetite statement defines different levels of thresholds in relation to various major risk areas the Company exposes to, including credit risk, market risk, interest rate risk, operational risk, liquidity risk, legal and compliance risk, strategic risk and reputational risk. The thresholds determine the maximum levels of risk the Company can assume before breaching the internal limits or regulatory requirements. The Board oversees the implementation of the relevant procedures and controls of the risk appetite framework. The RC supervises the Company's overall risk culture in accordance with the risk appetite statement. Regular risk appetite reports are presented to senior management. Business units perform the necessary controls in the context of the risk appetite statement and report any major issues under the predefined escalation requirements for further action.

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA") (continued)

(a) Overview of risk management (continued)

The Company adopts the three lines of defense approach to clearly define the roles and responsibilities of different units to safeguard the risk management system. The first line of defense consists of the business units and front-line employees, whose roles are to identify risk and apply internal controls and risk responses to ensure the business activities are subject to the Company's risk appetite and requirements.

The second line of defense is formed by the Risk Management Division which is responsible for providing independent oversight of risk management activities over the first line and formulating the related policies and procedures. The division carries out its function by collaborating with the department risk coordinators, performing regular reviews and reporting updates and significant risk matters to the senior management to ensure the risks are actively and appropriately managed.

The third line of defense is formed by the Internal Audit Division, who reports to the AC. It is responsible for reviewing the activities of first and second lines to ensure the function of each line is properly discharged under the risk management framework and the risk structure is carried out effectively and accurately.

The Company aims at establishing a proactive and responsive management culture, reducing business disruptions and facilitating a risk-aware culture across the Company. The Company has formulated a set of policies and guidelines for governing different types of risk in accordance with the approved risk appetite. The policies and guidelines clearly explain the risks the Company faced, and include the requirements which all relevant units have to adhere to and the proper reporting channel. These set of standards are properly documented and approved by the senior management or the Board. They are distributed on the intranet and available for all employees. Furthermore, periodic trainings in risk related aspects are provided to maintain the risk awareness of the Company.

Risk management reports are provided to the Board and RC on a regular basis. The reports cover the current position and exposures in various risk areas including portfolio analysis, credit limit usage and projection, risk exposures (consist of credit risk, operational risk, market risk and liquidity risk), stress test results and significant risk events and remedial actions.

Stress test is an integral part of the Company's risk management framework. The Company develops different tools to perform the stress test in individual and integrated basis. By using sensitivity, scenario or reverse stress test methods, the tools assess the potential loss to the Company under economic downturn or adverse market movements. The Company includes a series of remedial actions and escalation procedures when the test results reach the critical level. The stress test result is considered when formulating the business strategy, defining the risk attitude and building the recovery plan of the Company.

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA") (continued)

(b) Overview of RWA

	(HK$'000)	RWA		Minimum capital requirements
		As at 31 December 2020	As at 30 September 2020	As at 31 December 2020
1	Credit risk for non-securitization exposures	3,571,103	3,748,901	285,688
2	Of which STC approach	3,571,103	3,748,901	285,688
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	23,300	26,215	1,864
7	Of which SA-CCR*	N/A	N/A	N/A
7a	Of which CEM	23,300	26,215	1,864
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	4,150	5,638	332
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA*	N/A	N/A	N/A
13	CIS exposures – MBA*	N/A	N/A	N/A
14	CIS exposures – FBA*	N/A	N/A	N/A
14a	CIS exposures – combination of approaches*	N/A	N/A	N/A
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	40,150	17,600	3,212
21	Of which STM approach	40,150	17,600	3,212
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24	Operational risk	517,400	504,813	41,392
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-

2. OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED AMOUNT ("RWA") (continued)

(b) Overview of RWA (continued)

	(HK$'000)	RWA		Minimum capital requirements
		As at 31 December 2020	As at 30 September 2020	As at 31 December 2020
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	4,139	567	331
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	4,139	567	331
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	**Total**	**4,151,964**	**4,302,600**	**332,157**

N/A: Not applicable

Items marked with asterisk (*) will be applicable only after their respective policy frameworks take effect. Until then, "N/A" is reported in the rows.

During the fourth quarter in 2020, total RWAs decreased by approximately HK$151 million, which was mainly due to the decrease in RWAs on credit risk for non-securitization exposures attributed by the decrement in bank exposures.

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

(a) Prudent valuation adjustments

The following table shows a detailed breakdown of the constituent elements of valuation adjustments for all assets measured at fair value that the Group has made under section 4A of the Banking (Capital) Rules as of 31 December 2020.

		Equity	Interest rates	FX	Credit	Commodities	**Total**	Of which: In the trading book	Of which: In the banking book
1	Close-out uncertainty, of which:	-	-	-	-	-	-	-	-
2	*Mid-market value*	-	-	-	-	-	-	-	-
3	*Close-out costs*	-	-	-	-	-	-	-	-
4	*Concentration*	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	**Total adjustments**	-	-	-	-	-	-	-	-

The Group has established its own fair valuation policy (the "Fair Value Policy") and has undertaken independent price verification regularly to govern the valuation of the financial instruments measured at fair value. Valuation adjustments are made for assets measured at fair value either through marked to market or marked to model, including non-derivative and derivative instruments. The Group periodically reviews its Fair Value Policy to consider and assess any valuation uncertainty that shall be taken into account in the valuation process for those which are important and significant to the valuation of assets measured at fair value when compared to the market/model valuation.

The Group has currently considered the following elements of valuation adjustment in accordance with the Group's fair valuation policy:

- Credit valuation adjustment and debit valuation adjustment where applicable
- Model risk – including model specific adjustment for complex products
- Concentration – including liquidity valuation adjustment on less liquid fixed income securities

The other elements of valuation adjustment are not considered in the valuation process in the view that the risk and financial impact involved are considered to be insignificant.

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3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(b) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	As of 31 December 2020						
			Carrying values of items:				
(HK$)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and due from banks	2,669,489,375	2,669,489,375	2,669,489,375	-	-	-	-
Placements with banks	1,397,338,814	1,397,338,814	1,397,338,814	-	-	-	-
Derivative financial instruments	7,216,849	7,216,849	-	7,216,849	-	7,175,844	-
Loans and advances to customers	4,891,463,779	4,891,463,779	4,891,463,779	-	-	-	-
Debt instruments at fair value through other comprehensive income	174,994	174,994	174,994	-	-	-	-
Debt instruments at amortised cost	349,976,519	349,976,519	349,976,519	-	-	-	-
Deferred tax assets	52,543	52,543	-	-	-	-	52,543
Other assets	8,614,562	8,614,562	8,614,562	-	-	-	-
Total assets	9,324,327,435	9,324,327,435	9,317,058,043	7,216,849	-	7,175,844	52,543
Liabilities							
Deposits from customers	7,537,498,751	7,537,498,751	-	-	-	-	7,537,498,751
Amounts due to an intermediate holding company	79,574,047	79,574,047	-	-	-	-	79,574,047
Derivative financial instruments	3,688,104	3,688,104	-	-	-	3,647,099	-
Tax payable	5,341,298	5,341,298	-	-	-	-	5,341,298
Other liabilities	35,992,572	35,992,572	-	-	-	-	35,992,572
Total liabilities	7,662,094,772	7,662,094,772	-	-	-	3,647,099	7,658,406,668

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(b) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

	As of 31 December 2019						
			Carrying values of items:				
(HK$)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and due from banks	2,790,627,996	2,790,627,996	2,790,627,996	-	-	-	-
Placements with banks	1,682,078,147	1,682,078,147	1,682,078,147	-	-	-	-
Derivative financial instruments	9,270,488	9,270,488	-	9,270,488	-	8,914,375	-
Loans and advances to customers	5,048,309,514	5,048,309,514	5,048,309,514	-	-	-	-
Debt instruments at fair value through other comprehensive income	174,997	174,997	174,997	-	-	-	-
Investment in a subsidiary	-	136	136	-	-	-	-
Debt instruments at amortised cost	149,610,910	149,610,910	149,610,910	-	-	-	-
Deferred tax assets	39,461	39,461	-	-	-	-	39,461
Other assets	6,613,136	6,613,136	6,613,136	-	-	-	-
Total assets	9,686,724,649	9,686,724,785	9,677,414,836	9,270,488	-	8,914,375	39,461
Liabilities							
Deposits from customers	7,958,172,687	7,958,172,687	-	-	-	-	7,958,172,687
Amounts due to an intermediate holding company	77,035,561	76,865,997	-	-	-	-	76,865,997
Derivative financial instruments	5,035,739	5,035,739	-	-	-	4,679,626	-
Tax payable	7,258,422	7,258,422	-	-	-	-	7,258,422
Other liabilities	28,140,929	28,140,929	-	-	-	-	28,140,929
Total liabilities	8,075,643,338	8,075,473,774	-	-	-	4,679,626	8,070,438,035

The above table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation. The amounts shown in the column "Carrying values under scope of regulatory consolidation" do not equal to the sum of the amounts shown in the remaining columns of the table for derivative financial instruments as it is subject to regulatory capital charges in counterparty credit risk and market risk categories.

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(b) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C of the Banking (Capital) Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorized institutions under the Banking (Capital) Rules and the Hong Kong Banking Ordinance.

(c) Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		As of 31 December 2020				
			Items subject to:			
(HK$)		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation**	9,324,274,892	9,317,058,043	-	7,216,849	7,175,844
2	Liabilities carrying value amount under regulatory scope of consolidation	(3,688,104)	-	-	-	(3,647,099)
3	Total net amount under regulatory scope of consolidation	9,320,586,788	9,317,058,043	-	7,216,849	3,528,745
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences due to potential future exposures	19,752,151	-	-	19,752,151	-
6	Differences due to credit risk mitigation	(2,388,004,493)	(2,387,906,123)	-	(98,370)	-
7	Differences due to consideration of provisions	181,277	181,277	-	-	-
8	**Exposure amounts considered for regulatory purposes**	6,952,515,723	6,929,333,197	-	26,870,630	3,528,745

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES (continued)

(c) Main sources of differences between regulatory exposure amounts and carrying values in financial statements

(HK$)		As of 31 December 2019				
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation**	9,686,685,324	9,677,414,836	-	9,270,488	8,914,375
2	Liabilities carrying value amount under regulatory scope of consolidation	(5,035,739)	-	-	-	(4,679,626)
3	Total net amount under regulatory scope of consolidation	9,681,649,585	9,677,414,836	-	9,270,488	4,234,749
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences due to potential future exposures	23,135,264	-	-	23,135,264	-
6	Differences due to credit risk mitigation	(2,676,327,826)	(2,676,285,000)	-	(42,826)	-
7	Differences due to consideration of provisions	84,866	84,866	-	-	-
8	**Exposure amounts considered for regulatory purposes**	7,028,541,889	7,001,214,702	-	32,362,926	4,234,749

The key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation are: (i) off-balance sheet exposures, (ii) potential future exposures for derivatives and (iii) the exposure amounts for regulatory purposes are after the adjustment for the capital effect of recognised credit risk mitigation on the principal amounts.

(d) Systems and controls of valuation estimates

Please refer to notes 3.5 and 24 to the Group's consolidated financial statements for details.

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2020

4. COMPOSITION OF CAPITAL

(a) Composition of regulatory capital

	At 31 December 2020	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,000,000	(1)
2	Retained earnings	613,345	(2)
3	Disclosed reserves	48,888	(3)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	N/A	N/A
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory deductions**	**1,662,233**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	53	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A
23	of which: significant investments in the ordinary share of financial sector entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments applied to CET1 capital	48,888	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

	At 31 December 2020	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
26b	Regulatory reserve for general banking risks	48,888	(3)
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	**48,941**	
29	**CET1 capital**	**1,613,292**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,613,292**	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

	At 31 December 2020	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	44,930	
51	**Tier 2 capital before regulatory deductions**	**44,930**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**44,930**	
59	**Total regulatory capital (TC = T1 + T2)**	**1,658,222**	
60	**Total RWA**	**4,151,964**	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

	At 31 December 2020	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	**38.86%**	
62	**Tier 1 capital ratio**	**38.86%**	
63	**Total capital ratio**	**39.94%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**3.06%**	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0.555%	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	**31.94%**	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	49,069	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	44,930	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	N/A	N/A
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	N/A	N/A
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

N/A: Not applicable

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

	At 31 December 2019	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,000,000	(1)
2	Retained earnings	560,810	(2)
3	Disclosed reserves	50,441	(3)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	N/A	N/A
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory deductions**	**1,611,251**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	39	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A
23	of which: significant investments in the ordinary share of financial sector entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments applied to CET1 capital	50,441	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

	At 31 December 2019	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
26b	Regulatory reserve for general banking risks	50,441	(3)
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	**50,480**	
29	**CET1 capital**	**1,560,771**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,560,771**	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

	At 31 December 2019	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	48,420	
51	**Tier 2 capital before regulatory deductions**	**48,420**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	**48,420**	
59	**Total regulatory capital (TC = T1 + T2)**	**1,609,191**	
60	**Total RWA**	**4,413,402**	

4. COMPOSITION OF CAPITAL (continued)

(a) Composition of regulatory capital (continued)

	At 31 December 2019	Amount (In HK$'000)	Cross reference to balance sheet under the regulatory scope of consolidation
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	**35.4%**	
62	**Tier 1 capital ratio**	**35.4%**	
63	**Total capital ratio**	**36.5%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**3.64%**	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	1.136%	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	**28.5%**	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	N/A	N/A
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	N/A	N/A
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

N/A: Not applicable

4. COMPOSITION OF CAPITAL (continued)

(b) Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements At 31 December 2020 HK$	Under regulatory scope of consolidation At 31 December 2020 HK$	Reference
ASSETS			
Cash and due from banks	2,669,489,375	2,669,489,375	
Placements with banks	1,397,338,814	1,397,338,814	
Derivative financial instruments	7,216,849	7,216,849	
Loans and advances to customers	4,891,463,779	4,891,463,779	
Debt instruments at fair value through other comprehensive income	174,994	174,994	
Debt instruments at amortised cost	349,976,519	349,976,519	
Deferred tax assets	52,543	52,543	(4)
Other assets	8,614,562	8,614,562	
Total assets	9,324,327,435	9,324,327,435	
LIABILITIES			
Deposits from customers	7,537,498,751	7,537,498,751	
Amount due to an intermediate holding company	79,574,047	79,574,047	
Derivative financial instruments	3,688,104	3,688,104	
Tax payable	5,341,298	5,341,298	
Other liabilities	35,992,572	35,992,572	
Total liabilities	7,662,094,772	7,662,094,772	
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,000,000,000	1,000,000,000	(1)
Reserves	662,232,663	662,232,663	
Of which: Retained earnings (including current period profit or loss)		*613,344,870*	(2)
Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital		*48,887,793*	(3)
Total equity	1,662,232,663	1,662,232,663	
Total liabilities and equity	9,324,327,435	9,324,327,435	

4. COMPOSITION OF CAPITAL (continued)

(b) Reconciliation of regulatory capital to balance sheet (continued)

	Balance sheet as in published financial statements At 31 December 2019 HK$	Under regulatory scope of consolidation At 31 December 2019 HK$	Reference
ASSETS			
Cash and due from banks	2,790,627,996	2,790,627,996	
Placements with banks	1,682,078,147	1,682,078,147	
Derivative financial instruments	9,270,488	9,270,488	
Loans and advances to customers	5,048,309,514	5,048,309,514	
Debt instruments at fair value through other comprehensive income	174,997	174,997	
Debt instruments at amortised cost	149,610,910	149,610,910	
Investment in a subsidiary	-	136	
Deferred tax assets	39,461	39,461	(4)
Other assets	6,613,136	6,613,136	
Total assets	9,686,724,649	9,686,724,785	
LIABILITIES			
Deposits from customers	7,958,172,687	7,958,172,687	
Amount due to an intermediate holding company	77,035,561	76,865,997	
Derivative financial instruments	5,035,739	5,035,739	
Tax payable	7,258,422	7,258,422	
Other liabilities	28,140,929	28,140,929	
Total liabilities	8,075,643,338	8,075,473,774	
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,000,000,000	1,000,000,000	(1)
Reserves	611,081,311	611,251,011	
Of which: Retained earnings (including current period profit or loss)		*560,809,755*	(2)
Retained earnings earmarked as regulatory reserve eligible for inclusion in Tier 2 capital		*50,441,256*	(3)
Total equity	1,611,081,311	1,611,251,011	
Total liabilities and equity	9,686,724,649	9,686,724,785	

4. COMPOSITION OF CAPITAL (continued)

(c) Main features of regulatory capital instruments

Ordinary Shares as at 31 December 2020 and 31 December 2019

1	Issuer	Bank of China International Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	0390704D HK Equity
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
4	Transitional Basel III rules[1]	Common Equity Tier 1
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD1,000 million as at 31 December 2020 and 31 December 2019
9	Par value of instrument	N/A
10	Accounting classification	Share capital
11	Original date of issuance	a) 2 ordinary shares issued on 2 March 1979 b) 49,998 ordinary shares issued on 2 April 1979 c) 50,000 ordinary shares issued on 3 February 1989 d) 315,000 ordinary shares issued on 7 April 2009 e) 585,000 ordinary shares issued on 1 November 2011
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A

[1] Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

[2] Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

4. COMPOSITION OF CAPITAL (continued)

(c) Main features of regulatory capital instruments (continued)

Ordinary Shares as at 31 December 2020 and 31 December 2019 (continued)

	Coupons / dividends	
17	Fixed or floating dividend/coupon	Discretionary dividend amount
18	Coupon rate and any related index	The ordinary shareholders receive distributable profits that have been declared as dividend.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	The ordinary shares shall, on the return of capital in a winding-up, entitle the shareholders thereof rights of participation in any surplus profits or assets of the Company after all obligations have been satisfied.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Information relating to the disclosure of the full terms and conditions of the capital instruments issued by the Company can be viewed on the website:
http://www.bocigroup.com/PrivateBank/en/

5. MACROPRUDENTIAL SUPERVISORY MEASURES

Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB")

At 31 December 2020

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		(%)	(HK$'000)	(%)	(HK$'000)
1	Hong Kong SAR	1.000%	1,349,741		
2	**Sum**		1,349,741		
3	**Total**		**2,430,499**	**0.555%**	**23,043**

At 31 December 2019

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		(%)	(HK$'000)	(%)	(HK$'000)
1	Hong Kong SAR	2.000%	1,295,790		
2	**Sum**		1,295,790		
3	**Total**		**2,281,569**	**1.136%**	**50,136**

The Basel III CCyB, which is built up during periods of excess credit growth to protect against future losses, was phased-in on 1 January 2016 in Hong Kong. The Company's CCyB ratio as at 31 December 2020 was 0.555% (31 December 2019: 1.136%) as the majority of its private sector credit exposures are attributed to Hong Kong.

6. LEVERAGE RATIO

(a) Summary comparison of accounting assets against leverage ratio exposure measure

		As at 31 December 2020	As at 31 December 2019
	Item	**Value under the LR framework** (HK$'000 equivalent)	**Value under the LR framework** (HK$'000 equivalent)
1	Total consolidated assets as per published financial statements	9,324,327	9,686,725
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-	-
4	Adjustments for derivative contracts	19,752	23,135
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	-	-
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-	-
7	Other adjustments	(48,941)	(50,480)
8	**Leverage ratio exposure measure**	**9,295,138**	**9,659,380**

During 2020, the leverage ratio exposure measure decreased by approximately HK$364 million, resulting in the increase of leverage ratio from 16.16% to 17.36%. The decrease in exposure measure was mainly attributed by the decrease of bank exposures during the year.

6. LEVERAGE RATIO (continued)

(b) Leverage ratio

		HK$'000 equivalent	
		As at 31 December 2020	**As at 31 December 2019**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	9,318,504	9,678,771
2	Less: Asset amounts deducted in determining Tier 1 capital	(48,888)	(50,441)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**9,269,616**	**9,628,330**
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	7,217	9,271
5	Add-on amounts for PFE associated with all derivative contracts	19,752	23,135
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	**26,969**	**32,406**
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	-	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	**Off-balance sheet items**	-	-
Capital and total exposures			
20	**Tier 1 capital**	**1,613,292**	**1,560,771**
20a	**Total exposures before adjustments for specific and collective provisions**	**9,296,585**	**9,660,736**
20b	**Adjustments for specific and collective provisions**	**(1,447)**	**(1,356)**
21	**Total exposures after adjustments for specific and collective provisions**	**9,295,138**	**9,659,380**
Leverage ratio			
22	**Leverage ratio**	**17.36%**	**16.16%**

7. LIQUIDITY

(a) Governance of liquidity risk management

Please refer to notes 3.3 to the Group's consolidated financial statements for details.

(b) Funding strategy

The funding strategy of the Group is to maintain ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels to changes in the Group's business operations or unanticipated events.

The Group mainly relies on its client deposits and deposits made by other subsidiaries under BOC International Holdings Limited as major funding source. The Group also seeks to diversify its funding sources by establishing strong and lasting relationships with other financial institutions.

(c) Liquidity risk mitigation techniques

Please refer to notes 3.3 to the Group's consolidated financial statements for details.

(d) Liquidity stress testing

Please refer to notes 3.3 to the Group's consolidated financial statements for details.

(e) Contingency funding plan

As stated in the Liquidity Risk Management Policy, the Company's ability to withstand both temporary and longer-term liquidity disruptions depends on its ability to secure funding in a timely manner and at a reasonable cost. The Liquidity Risk Contingency Funding Plan Guidelines ("CFP") serves as the supplementary document to the Policy, which documents the key strategy, procedures, roles and responsibilities and other important matters for the Group to deal with emergency liquidity issues. The CFP is regularly updated by Risk Management Division, and is reviewed and approved by the ALCO, EC, RC and the Board.

(f) Liquidity risk measurement tools or metrics

Liquidity Maintenance Ratio (the "LMR")
LMR is measured according to the Banking (Liquidity) Rules and the Supervisory Policy Manual issued by HKMA to monitor the overall short term liquidity risk profile of the Group. Both regulatory limit which is set up by HKMA and internal limit which is set up within the Group are monitored.

Loan to Deposit Ratio
Loan to deposit ratio is measured to monitor the overall usage of the client loan against client deposit.

Wholesale Funding Dependency Ratio
Wholesale funding dependency ratio is measured to monitor the overall reliance of wholesale funding.

FX Swap to Client Deposit Ratio
FX swap to client deposit ratio is measured to monitor the overall reliance of funding from FX swap market.

7. LIQUIDITY (continued)

(f) Liquidity risk measurement tools or metrics (continued)

Funding source concentration from intra-group companies

The funding source concentration from intra-group companies limit is measured to monitor the concentration of funding from intra-group companies.

Metrics	December 2020
Liquidity Maintenance Ratio[1]	48.54%
Loan to Deposit Ratio[2]	62.38%
Wholesale Funding Dependency Ratio[2]	0.00%
FX Swap to Client Deposit Ratio	
- Local currency swap ratio (HKD)[2]	14.60%
- Foreign currency swap ratio (non-HKD)[2]	0.00%
Funding source concentration from intra-group companies	1.57%

[1] average as submitted to HKMA
[2] measured in monthly average

Maturity Mismatch Ratio

Maturity mismatch ratios for major currencies (including HKD, USD and CNY) are measured to monitor the 1-week and 1-month mismatch in asset and liability relative to the total liabilities.

As at 31 December 2020, the maturity mismatch ratio for major currencies are as followed:

Currency	Tenor - 1 week	Tenor - 1 month
HKD	51.83%	52.54%
USD	2.14%	15.47%
CNY	3.42%	2.92%

7. LIQUIDITY (continued)

(f) Liquidity risk measurement tools or metrics (continued)

The Group's analysis of on- and off-balance sheet items by remaining maturity and the resultant liquidity gaps as of 31 December 2020 and 2019 is shown as follows:

	On demand and up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Undated/ Indefinite/ Overdue HK$'000
31 December 2020					
Cash and due from banks	2,669,489	-	-	-	-
Placements with banks	-	1,397,339	-	-	-
Loans and advances to customers	4,891,114	320	30	-	-
Debt instruments at fair value through other comprehensive income	-	-	-	-	175
Debt instruments at amortised cost	299,987	49,990	-	-	-
Financial assets included in other assets	388	72	67	-	11
Total on-balance sheet assets	**7,860,978**	**1,447,721**	**97**	**-**	**186**
Deposits from customers	5,049,106	2,305,394	182,999	-	-
Amounts due to an intermediate holding company	79,574	-	-	-	-
Financial liabilities included in other liabilities	3,808	-	23,330	3,331	5,524
Total on-balance sheet liabilities	**5,132,488**	**2,305,394**	**206,329**	**3,331**	**5,524**
Derivative financial instruments					
Off-balance sheet claims	**1,540,028**	**287,989**	**87,894**	**-**	**-**
Off-balance sheet obligations	**1,542,808**	**284,300**	**83,203**	**-**	**-**
Maturity mismatch	**2,725,710**	**(853,984)**	**(201,541)**	**(3,331)**	**(5,338)**
Cumulative maturity mismatch	**2,725,710**	**1,871,726**	**1,670,185**	**1,666,854**	**1,661,516**

7. LIQUIDITY (continued)

(f) Liquidity risk measurement tools or metrics (continued)

	On demand and up to 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Undated/ Indefinite/ Overdue HK$'000
31 December 2019					
Cash and due from banks	2,790,628	-	-	-	-
Placements with banks	-	1,682,078	-	-	-
Loans and advances to customers	5,048,189	99	22	-	-
Debt instruments at fair value through other comprehensive income	-	-	-	-	175
Debt instruments at amortised cost	-	149,611	-	-	-
Financial assets included in other assets	-	174	14	-	13
Total on-balance sheet assets	**7,838,817**	**1,831,962**	**36**	-	**188**
Deposits from customers	3,771,792	3,476,231	710,150	-	-
Amounts due to an intermediate holding company	77,036	-	-	-	-
Financial liabilities included in other liabilities	3,034	12,761	6,822	-	5,524
Total on-balance sheet liabilities	**3,851,862**	**3,488,992**	**716,972**	-	**5,524**
Derivative financial instruments					
Off-balance sheet claims	**1,458,654**	**382,775**	**250,085**	-	-
Off-balance sheet obligations	**1,459,937**	**378,175**	**248,656**	-	-
Maturity mismatch	**3,985,672**	**(1,652,430)**	**(715,507)**	-	**(5,336)**
Cumulative maturity mismatch	**3,985,672**	**2,333,242**	**1,617,735**	**1,617,735**	**1,612,399**

8. CREDIT RISK

(a) General information about credit risk

Overview

Credit risk is the risk of loss as a result of the borrower or the trading counterparty being unable or unwilling to perform its obligations in a transaction. Credit risk exists in the trading book and banking book, on-balance sheet and off-balance sheet of the Company. It arises from lending business, OTC trading business and treasury business.

The Company has established policies, guidelines and procedures to identify, measure, review, manage, monitor, control and report credit risk. All credit risk related policies have been approved by the Board and subject to ongoing review in order to be in line with the regulatory guideline and statutory requirement, business strategy and risk appetite.

Credit Risk Management

Credit risk management framework and a well-defined operating structure have been established to ensure proper governance, a high level of independence and integrity. Each party in the operating structure has respective roles and responsibilities with clear reporting line defined.

The Company has in place a firm-wide risk management framework with the related standards and procedures to effectively manage credit risk. The Company's credit risk policy is established and aims to document the credit risk identification, assessment, monitoring and control of the Company's lending and trading business. A credit risk limit framework, which comprises of credit risk limit structure and credit risk limit approval hierarchy, was established.

Under the risk framework, the credit limits and credit exposures to borrowers are well-defined and monitored regularly. Following the credit limit initial application or subsequent limit change request submission received from the business division based on the business needs and capital requirement framework, the risk management division performs the independent risk assessment according to the credit approval procedures. Under the approval hierarchy, business endorsement/support and risk approvers must be obtained. The credit limits of clients are reviewed and approved on annual basis.

Furthermore, the Risk Management Division ("RMD") carries out regular risk reporting include credit risk exposures, limit usage and stress test to senior management, risk committees or the Board in order to control and monitor the credit risk.

Internal audit and external audit are appointed by the Board to constantly oversee the effectiveness of the credit risk management for the Company.

With an existence of different roles and responsibility with clear reporting structure, it provides assurance on the effectiveness of the Company's credit risk management framework.

8. CREDIT RISK (continued)

(b) Credit quality of exposures

		As at 31 December 2020						
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a) + (b) - (c)
	HK$'000	Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	1,266	4,891,465	1,267	1,266	1	-	4,891,464
2	Debt securities	-	350,167	16	-	16	-	350,151
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	**Total**	**1,266**	**5,241,632**	**1,283**	**1,266**	**17**	**-**	**5,241,615**

		As at 31 December 2019						
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a) + (b) - (c)
	HK$'000	Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	1,272	5,048,311	1,273	1,272	1	-	5,048,310
2	Debt securities	-	149,799	13		13	-	149,786
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	**Total**	**1,272**	**5,198,110**	**1,286**	**1,272**	**14**	**-**	**5,198,096**

Defaulted exposures refer to unsecured portions of claims past due for more than 90 days or repayment of fully secured principal and accrued interests being overdue for more than 12 months.

8. CREDIT RISK (continued)

(c) Changes in defaulted loans and debt securities

	(HK$'000)	Amount
1	**Defaulted loans and debt securities at end of the previous reporting period (31 December 2019)**	**1,272**
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	(6)
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2020)**	**1,266**

	(HK$'000)	Amount
1	**Defaulted loans and debt securities at end of the previous reporting period (31 December 2018)**	**1,279**
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	(7)
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2019)**	**1,272**

(d) Additional disclosure related to credit quality of exposures

Under the HKMA regulatory regime, loans and advances are to be classified into five categories: Pass, Special Mention, Substandard, Doubtful and Loss.

An account is considered past due when a contractually agreed payment is not received on a date mutually agreed between the borrower and the lender.

The Company assesses at each balance sheet date whether there is any objective evidence that a loan or group of loans is impaired. A loan or a group of loans is impaired and impairment losses are incurred if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and the loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

8. CREDIT RISK (continued)

(d) Additional disclosure related to credit quality of exposures (continued)

The credit quality of exposures can be analysed as follows:

Geographical breakdown of exposures

	As at 31 December 2020 HK$	As at 31 December 2019 HK$
Hong Kong SAR	3,916,779,413	3,102,148,961
Macau SAR	2,664,677,991	3,813,979,171
Mainland China	1,674,274,090	1,705,145,929
Others	1,061,326,549	1,056,140,775
Total credit exposures	9,317,058,043	9,677,414,836

Concentration of exposures by industry

	As at 31 December 2020 HK$	As at 31 December 2019 HK$
Banks	4,067,215,986	4,472,706,143
Official sector	349,976,519	149,610,910
Non-bank private sector		
- Investment companies	750,941,352	827,782,287
- Individuals	4,140,661,442	4,220,527,519
- Others	8,262,744	6,787,977
Total credit exposures	9,317,058,043	9,677,414,836

Exposures by residual maturity

	As at 31 December 2020 HK$	As at 31 December 2019 HK$
Up to 1 month	7,860,977,839	7,838,816,909
Between 1-3 months	1,447,720,933	1,831,962,455
Between 3-12 months	96,533	36,212
Undated/ Indefinite	8,262,738	6,599,260
Total credit exposures	9,317,058,043	9,677,414,836

8. CREDIT RISK (continued)

(d) Additional disclosure related to credit quality of exposures (continued)

Impaired exposures and related allowances can be analysed as follows:

Geographical breakdown of impaired exposures and related allowances

	As at 31 December 2020 HK$	As at 31 December 2019 HK$
Hong Kong SAR	1,266,184	1,271,868
Gross impaired exposures	1,266,184	1,271,868
Less: individual impairment allowance	(1,266,184)	(1,271,868)
Net exposures	-	-

Impaired exposures and related allowances by industry

	As at 31 December 2020 HK$	As at 31 December 2019 HK$
Individual	1,266,184	1,271,868
Gross impaired exposures	1,266,184	1,271,868
Less: individual impairment allowance	(1,266,184)	(1,271,868)
Net exposures	-	-

Please refer to note 3.2.1 to the consolidated financial statements for the aging analysis of the past due exposures.

Rescheduled loans and advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule.

Please refer to supplementary financial information note 15(iv) to the consolidated financial statements for details of rescheduled exposures.

(e) Qualitative disclosures related to credit risk mitigation

The credit risk management and control are generally centralised in the RMD. The Company applies prudent assessments of eligibility and quality of collateral. Marketable securities are marked-to-market in accordance with the frequency detailed in the Credit Guidelines approved by the Board. Established framework and policies are in place for close monitoring. For regulatory capital calculation, only recognised collateral stipulated by the Banking (Capital) Rules are considered as recognised credit risk mitigations and the Company follows the Banking (Capital) Rules when assessing the eligibility. Recognised collateral include financial instruments such as cash deposits. The exposure amount after mitigation is determined by applying the standard supervisory haircut required under the Banking (Capital) Rules as an adjustment to the current market value of the recognised collateral. Information about both credit and market risk concentrations within the credit risk mitigation are stated in note 3.2.5 of the Group's consolidated financial statements. On-balance and off-balance sheet recognised netting is not adopted by the Company.

8. CREDIT RISK (continued)

(f) Overview of recognised credit risk mitigation

	(HK$'000)	As at 31 December 2020				
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
1	Loans	1,125,900	3,765,564	2,387,906	-	-
2	Debt securities	350,151	-	-	-	-
3	**Total**	**1,476,051**	**3,765,564**	**2,387,906**	-	-
4	Of which defaulted	-	-	-	-	-

	(HK$'000)	As at 31 December 2019				
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
1	Loans	1,047,228	4,001,082	2,676,285	-	-
2	Debt securities	149,786	-	-	-	-
3	**Total**	**1,197,014**	**4,001,082**	**2,676,285**	-	-
4	Of which defaulted	-	-	-	-	-

(g) Qualitative disclosures on use of ECAI ratings under STC approach

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings are the External Credit Assessment Institutions ("ECAIs") that the Company has used in relation to the credit risk exposures under the following exposure classes:

- Sovereign exposures;
- Bank exposures;
- Securities firm exposures; and
- Corporate exposures.

The process it used to map ECAI issuer ratings or ECAI issue specific ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

8. CREDIT RISK (continued)

(h) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

		As at 31 December 2020					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	**On-balance sheet amount (HK$'000)**	**Off-balance sheet amount (HK$'000)**	**On-balance sheet amount (HK$'000)**	**Off-balance sheet amount (HK$'000)**	**RWA (HK$'000)**	**RWA density**
1	Sovereign exposures	349,992	-	349,992	-	-	0%
2	PSE exposures	-	-	-	-	-	0%
2a	Of which: domestic PSEs	-	-	-	-	-	0%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	4,067,381	-	4,067,381	-	1,163,025	29%
5	Securities firm exposures	-	-	-	-	-	0%
6	Corporate exposures	743,158	-	425,070	-	425,070	100%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	-	-	-	-	-	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	253,615	-	55,700	-	41,775	75%
11	Residential mortgage loans	146,179	-	146,179	-	56,222	38%
12	Other exposures which are not past due exposures	3,756,915	-	1,885,011	-	1,885,011	100%
13	Past due exposures	-	-	-	-	-	0%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**9,317,240**	-	**6,929,333**	-	**3,571,103**	**52%**

8. CREDIT RISK (continued)

(h) Credit risk exposures and effects of recognised credit risk mitigation – for STC approach (continued)

		As at 31 December 2019					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	**On-balance sheet amount (HK$'000)**	**Off-balance sheet amount (HK$'000)**	**On-balance sheet amount (HK$'000)**	**Off-balance sheet amount (HK$'000)**	**RWA (HK$'000)**	**RWA density**
1	Sovereign exposures	149,624	-	149,624	-	-	0%
2	PSE exposures	-	-	-	-	-	0%
2a	Of which: domestic PSEs	-	-	-	-	-	0%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	4,472,777	-	4,472,777	-	1,588,589	36%
5	Securities firm exposures	174	-	174	-	87	50%
6	Corporate exposures	819,565	-	369,169	-	369,169	100%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	-	-	-	-	-	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	213,039	-	60,211	-	45,158	75%
11	Residential mortgage loans	160,528	-	160,528	-	61,527	38%
12	Other exposures which are not past due exposures	3,861,793	-	1,788,732	-	1,788,732	100%
13	Past due exposures	-	-	-	-	-	0%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**9,677,500**	**-**	**7,001,215**	**-**	**3,853,262**	**55%**

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2020

8. CREDIT RISK (continued)

(i) Credit risk exposures by asset classes and by risk weights – for STC approach

	(HK$'000)	As at 31 December 2020										
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	349,992	-	-	-	-	-	-	-	-	-	349,992
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	2,902,217	-	1,165,164	-	-	-	-	-	4,067,381
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	425,070	-	-	-	425,070
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	55,700	-	-	-	-	55,700
11	Residential mortgage loans	-	-	-	138,395	-	-	7,784	-	-	-	146,179
12	Other exposures which are not past due exposures	-	-	-	-	-	-	1,885,011	-	-	-	1,885,011
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**349,992**	**-**	**2,902,217**	**138,395**	**1,165,164**	**55,700**	**2,317,865**	**-**	**-**	**-**	**6,929,333**

BANK OF CHINA INTERNATIONAL LIMITED
中銀國際有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2020

8. CREDIT RISK (continued)

(i) Credit risk exposures by asset classes and by risk weights – for STC approach (continued)

	(HK$'000)	As at 31 December 2019										
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	149,624	-	-	-	-	-	-	-	-	-	149,624
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	2,159,334	-	2,313,443	-	-	-	-	-	4,472,777
5	Securities firm exposures	-	-	-	-	174	-	-	-	-	-	174
6	Corporate exposures	-	-	-	-	-	-	369,169	-	-	-	369,169
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	60,211	-	-	-	-	60,211
11	Residential mortgage loans	-	-	-	152,310	-	-	8,218	-	-	-	160,528
12	Other exposures which are not past due exposures	-	-	-	-	-	-	1,788,732	-	-	-	1,788,732
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**149,624**	**-**	**2,159,334**	**152,310**	**2,313,617**	**60,211**	**2,166,119**	**-**	**-**	**-**	**7,001,215**

9. COUNTERPARTY CREDIT RISK ("CCR")

(a) Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

Counterparty credit risk comprises pre-settlement risk and settlement risk arising from derivative or securities financing transactions. The pre-settlement risk is the risk of loss due to counterparty defaults or counterparty credit deterioration before the settlement date. Settlement risk is the risk of failed settlement that the counterparty fails to deliver the terms on a contract at the settlement date.

The Company has in place a firm-wide risk management framework with the related standards and procedures to effectively manage the counterparty credit risk. The standard "Counterparty Credit Risk Management Guideline" ("CCR Guideline") is established and aims to document the credit risk identification, assessment, monitoring and control of the Company's trading and treasury activities with external and intragroup counterparties. The CCR Guideline is formulated with consideration of regulatory requirements and rules and approved by the RC.

Under the risk framework, the credit limits and credit exposures to counterparties are well-defined and monitored regularly. The counterparty credit risk exposures are measured under current exposure method and peak settlement approach according to different types of risk and presented in both individual counterparty level and group of related counterparty level. A formal credit limit setting and approval procedure is set forth to govern the counterparty credit risk. Following the credit limit initial application or subsequent limit change request submission received from the business division based on the business needs and capital requirement framework, the RMD performs the independent risk assessment according to the credit approval procedures. Under the approval hierarch, business endorsement/support and risk approvers must be obtained. The credit limits of counterparties are reviewed and approved on an annual basis.

Furthermore, the RMD carries out regular risk reporting include credit risk exposures, limit usage and stress test to senior management, risk committees or the Board in order to control and monitor the counterparty credit risk.

The Company's risk framework defines the collateral requirements to mitigate the counterparty risk. In principle, ISDA master agreement must be executed in advance for over-the-counter ("OTC") derivatives trading, with effective close-out netting enforceability.

General wrong-way risk arises when the probability of default of counterparties is positively correlated with general market risk factors. Specific wrong-way risk arises when the exposure to counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transaction with the counterparty. The Company sets up the controls in various areas including the collateral requirements and stress testing to manage and assess the potential impact of the risk.

While the Company has no credit rating, in the event of credit downgrade by its parent company (say, 3-notch downgrade), the impact on the Company's collateral obligations under derivative contracts is minimal.

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(b) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		As at 31 December 2020					
		Replacement cost (RC) (HK$'000)	**PFE (HK$'000)**	**Effective EPE (HK$'000)**	**Alpha (α) used for computing default risk exposure**	**Default risk exposure after CRM (HK$'000)**	**RWA (HK$'000)**
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	7,217	19,752		N/A	26,871	23,300
2	IMM (CCR) approach			-	N/A	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**23,300**

		As at 31 December 2019					
		Replacement cost (RC) (HK$'000)	**PFE (HK$'000)**	**Effective EPE (HK$'000)**	**Alpha (α) used for computing default risk exposure**	**Default risk exposure after CRM (HK$'000)**	**RWA (HK$'000)**
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	9,271	23,135		N/A	32,363	20,320
2	IMM (CCR) approach			-	N/A	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**20,320**

The current exposure method is used for calculating default risk exposures of derivative contracts.

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(c) CVA capital charge

	(HK$'000)	As at 31 December 2020		As at 31 December 2019	
		EAD post CRM	RWA	EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	26,871	4,150	32,363	4,450
4	**Total**	**26,871**	**4,150**	**32,363**	**4,450**

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(d) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

	(HK$'000)	As at 31 December 2020										
	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	4,393	-	-	-	-	-	-	-	4,393
5	Securities firm exposures	-	-	-	-	114	-	-	-	-	-	114
6	Corporate exposures	-	-	-	-	-	-	22,196	-	-	-	22,196
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	168	-	-	-	168
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**-**	**-**	**4,393**	**-**	**114**	**-**	**22,364**	**-**	**-**	**-**	**26,871**

During 2020, total default risk exposure after CRM decreased by approximately HK$5 million, which was attributed by the decrement in bank exposures.

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(d) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach (continued)

(HK$'000)		As at 31 December 2019										
	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	14,369	-	1,096	-	-	-	-	-	15,465
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	16,638	-	-	-	16,638
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	260	-	-	-	260
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**-**	**-**	**14,369**	**-**	**1,096**	**-**	**16,898**	**-**	**-**	**-**	**32,363**

9. COUNTERPARTY CREDIT RISK ("CCR") (continued)

(e) Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	As at 31 December 2020					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
(HK$'000)	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	7,610	-	388	-	-
Total	-	**7,610**	-	**388**	-	-

	As at 31 December 2019					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
(HK$'000)	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	4,283	-	-	-	-
Total	-	**4,283**	-	-	-	-

10. MARKET RISK

(a) Qualitative disclosures related to market risk

The Company has formulated market risk management policy to identify, measure, control and report the market risk exposures and information. The Company has also defined its market risk appetite in the Risk Appetite Statement in accordance with the Group's business strategies and objectives. Please refer to note 3.1 "Market Risk" to the consolidated financial statement for details.

The Company has established risk governance management framework to manage market risk. Please refer to the "Risk Governance Structure" section in note 3 to the consolidated financial statements for details.

For measuring and monitoring market risk, the analysis is carried out on different dimensions (e.g. by risk factors, by currencies and by tenors) and results in the potential loss or sensitivity impact. The market risk limits are set with reference to the risk appetite, business model and usage. To facilitate the measurement and analysis of market risk, multiple systems such as the Group's treasury system and market risk system are employed. For the reporting of market risk, it is compiled and monitored on a daily basis. Besides, management reports are compiled and reported for different level of governance on a regular basis.

10. MARKET RISK (continued)

(b) Market risk under Standardized approach

	(HK$'000)	As at 31 December 2020 RWA	As at 31 December 2019 RWA
	Outright product exposures		
1	Interest rate exposures (general and specific risk)	-	51,500
2	Equity exposures (general and specific risk)	-	-
3	Foreign exchange (including gold) exposures	40,150	7,213
4	Commodity exposures	-	-
	Option exposures		
5	Simplified approach	-	-
6	Delta-plus approach	-	-
7	Other approach	-	-
8	Securitization exposures	-	-
9	**Total**	**40,150**	**58,713**

During 2020, total market risk RWA decreased by approximately HK$19 million, which was mainly attributed by the decrease in interest rate exposures from foreign exchange derivative contracts position being offset by the increase in foreign exchange exposures from net open positions in foreign currencies.

11. INTEREST RATE RISK IN BANKING BOOK

(a) Interest rate risk in banking book – risk management objectives and policies

Interest Rate Risk in the Banking book ("IRRBB") refers to the risk to the Company's overall earnings and economic value due to adverse movements in interest rates or changes to the balance sheet structure. IRRBB arises from the Company's core business activities, such as providing loans and taking deposits, or treasury business that have differing repricing maturities and interest rates, which expose the Company's capital and earnings to risk when there are changes in the interest rate environment.

Governance structure and management policies

The Company has set up the Interest Rate Risk in the Banking Book Management Policy (the "Policy") to effectively manage its IRRBB by establishing and implementing a conceptually sound management system according to the risk appetite as set out by the Board. The Policy is established in accordance with the Supervisory Policy Manual on Interest Rate Risk in the Banking Book ("IR-1") issued by the HKMA.

The Policy is approved by ALCO, EC, RC and the Board ultimately. The ALCO, authorised by EC, is the governing body responsible for the implementation of risk management process to facilitate the identification, assessment, measurement, monitoring, reporting and controlling on interest rate risk in a comprehensive and consistent manner. Various limits and Management Alert Trigger ("MAT") levels are set to control and monitor the Interest Rates risk. The measurement of IRRBB outcomes are based on the earnings-based measures and economic value measures. For earnings-based measures, the focus for analysis is the impact of changes in interest rates on future accrued or reported earnings. The change in Net Interest Income ("ΔNII"), therefore the change of the difference between total interest income and total interest expense directly link to changes in interest rates.

For economic value measures, the focus on measuring the level of change to the net present value of the relevant balance sheet items, based on existing or adjusted cash flows that are revalued in line with the interest rate shock and stress scenarios. The change in the valuation is a measure of the level of IRRBB, and can be compared with the current value of equity to determine the change to the economic value of equity ("EVE").

Overall IRRBB and mitigation strategies

The overview of risk management is described under supplementary note 2 (a) of the Group's consolidated financial statements. For the role and practices of the ALCO, please refer to supplementary note 18 (g) of the Group's consolidated financial statements.

For the nature of the risk, please refer to notes 3.1.1 of the Group's consolidated financial statements for details.

RMD is responsible for monitoring of EVE and net interest income ("NII") and the compliance against the approved IRRBB limits by the RC and the Board, on a monthly basis. Risk limits and MAT are established for ongoing monitoring of impact to EVE and NII resulting from future interest rate movement.

11. INTEREST RATE RISK IN BANKING BOOK (continued)

(a) Interest rate risk in banking book – risk management objectives and policies (continued)

Overall IRRBB and mitigation strategies (continued)

Stress testing analysis on IRRBB is conducted on a monthly basis to measure the vulnerability to loss arising from interest rate movement, in order to analyze the potential impact to the capital positions. The Company considers the stress results when establishing and reviewing the IRRBB Policy and risk limits. Currently, the Company adopts the six standardised interest rate shock scenarios and two parallel shock scenarios set out in IR-1 to estimate changes in economic value and earnings respectively.

RMD regularly reviews and updates these risk limits with regards to the business and market conditions.

Furthermore, RMD carries out periodic risk reporting include interest rate risk, limit usage and stress test to senior management, risk committees or the Board in order to control and monitor the interest rate risk.

The Company adopts a prudent measure to monitor, control and manage the interest rate risk in the banking book within the Company's risk appetite and internal limits. Whenever necessary and for the sake of reducing the interest rate risk exposure, the Company may use the interest rate derivatives instruments, which include but not limited to Forward Rate Agreement, Interest Rate Swap and/or Cross Currency Swap, to hedge the risk to an acceptable level.

Hedge accounting treatment under Hong Kong Financial Reporting Standard would be considered to apply to avoid fluctuation of profit and loss arising from mark-to-market of the hedging derivatives.

11. INTEREST RATE RISK IN BANKING BOOK (continued)

(a) Interest rate risk in banking book – risk management objectives and policies (continued)

Key modeling and parametric assumptions in measuring the changes in EVE and NII disclosed in (b)

1. Treatment of commercial margin and other spread components used in the measurement of the changes in EVE

   In computing the impact on EVE, the cash flows including commercial margins and spread components are discounted with a risk-free rate curve composite of interbank offering rates and swap rats on currency-basis.

2. Methodology used to estimate the early withdrawal rates for time deposits

   The early withdrawal rate modelling on term deposits has been used to forecast early redemption rates on retail fixed rate term deposits. The methodology used to determine withdrawal rates of the term deposits undergoes a model fitting process between various parametric time series models and mean model.

3. Other assumptions

   a. Interbank borrowing and lending are not considered as having embedded early termination option. Based on the market practice, early termination of loans and deposits are not allowed.

   b. Currency linked deposits (CLD) are not considered as having any options under banking book.

      i. For underlying option, Product Marketing performs client facilitation to back-to-back hedge the option to external parties without taking positions, which are considered as trading book.
      ii. Due to the difficulties in unwinding the underlying option, no early termination is allowed on the deposit side.

4. Methods of aggregation across currencies and any significant interest rate correlations between different currencies

   The method of aggregation for impact on EVE follows the exact formula provided by HKMA which only positive impact on EVE are taken during aggregation. While for impact on NII, the exposures are directly netted over currencies.

   The Company does not offer any non-maturity deposits.

   Other than the key assumptions detailed above, no other assumptions have been made in deriving the changes in EVE and NII disclosed in (b) below.

11. INTEREST RATE RISK IN BANKING BOOK (continued)

(b) Interest rate risk exposures in banking book

The following table displays the changes in economic value of equity and net interest income under each of the prescribed interest rate shock scenarios in respect of the Company's interest rate risk exposures arising from the banking book positions as at 31 December 2020 and 2019.

(In HK$ million)		(a)	(b)	(c)	(d)
		ΔEVE		**ΔNII**	
	Period	**As of 31 December 2020**	**As of 31 December 2019**	**As of 31 December 2020**	**As of 31 December 2019**
1	Parallel up	8	4	(36)	(31)
2	Parallel down	2	5	36	31
3	Steepener	2	3		
4	Flattener	9	3		
5	Short rate up	11	6		
6	Short rate down	2	7		
7	**Maximum**	11	7	36	31
	Period	**As of 31 December 2020**		**As of 31 December 2019**	
8	**Tier 1 capital**	1,613		1,561	

12. OPERATIONAL RISK

Please refer to note 3.6 "Operational Risk" to the Group's consolidated financial statements for details.

13. REMUNERATION

(a) Remuneration policy

The Company adopts the remuneration practices following the remuneration principles of BOC International Holdings Limited ("BOCI Group") and established its own remuneration policy to provide general guidance on the governance and control arrangements for and operations of, the remuneration system of its employees. The remuneration matters have been disclosed according to the guideline in Part 3 of the Supervisory Policy Manual module CG5, namely "Guideline on a Sound Remuneration System" issued by the HKMA.

The objective of the remuneration system is to define a reward framework that can attract, retain, and motivate employees, and create incentives for delivering sustainable performance.

The Company may appoint external consultant to provide advice on market practice and to make improvement on governance and remuneration policy. In 2020, the Company has not requested to seek advice from external consultant on matters relating to remuneration.

(i) Governance

The NRC assists the Board in identifying and nominating candidates as directors and senior management of the Company for appointment for the approval of the Board as well as in its overseeing the formulation and implementation of the Company's remuneration policy. NRC involves in the process of design and implementation of nomination and remuneration policy and plays a continuing role in the operation of the nomination and remuneration system:

- To establish the Selection, Appointment and Succession Policy of the Board of Directors;
- To establish the annual self-evaluation mechanism for the Board and its sub committees;
- To establish the Succession Policy for Key Positions to provide continuity in leadership and avoid extended vacancies in key positions;
- To ensure to have an orderly selection, appointment and succession on the Director and Key Position as set out in the policies;
- To undertake regular assessments of the effectiveness of the Board and its sub committees as well as the contribution made by each individual director to the effectiveness of the Board;
- To establish human resources and remuneration strategies, plans and policies;
- To supervise the execution and evaluate the effectiveness of human resources and remuneration policies which is consistent with the regulatory guideline and any other legal or regulatory requirements;
- To establish a professional and match-with-market human resources management system and incentive scheme and control mechanism; and
- To improve, enhance and ensure the competitiveness and quality of human capital.

13. REMUNERATION (continued)

(a) Remuneration policy (continued)

(i) Governance (continued)

The remuneration policy introduced the establishment and functions of the NRC for the Company. The risk factors and measures are also described in the policy in order to promote effective risk management between risk and reward and provide long-term interests of the Company, and maintain financial soundness for the Company. The NRC meets at least once a year. During the year, the NRC held four meetings and passed eight written solutions. The remuneration policy has been reviewed and endorsed by the NRC and some minor amendments were made in 2020.

The policies and regulations set out in the remuneration policy are applicable to i) senior management responsible for the oversight of the Company's firm-wide strategy, activities or material business lines; ii) key personnel with duties or activities in the course of their employment which involve the assumption of material risk or the taking on of material exposures on behalf of the Company; iii) groups of employees whose duties in aggregate may expose the Company to material amounts of risk on behalf of the Company; and iv) employees within the risk control functions who have responsibilities to monitor and report risk of the Company.

(ii) Remuneration structures

The employees' total remuneration consists of fixed pay (e.g. salary and allowances) and variable remuneration (e.g. discretionary bonus). It is determined on the basis of their roles and responsibilities, performance, contributions, and market dynamics. All fixed and variable remuneration are in cash form.

It differentiates the variable/ fixed remuneration ratios across employees based on performance, seniority, and their functions. This helps to ensure that employee incentives remain focused on prudent risk taking and/ or effective control, depending on the employee's role.

The Company will reward employees by directly linking compensation to performance based on their annual objective setting and annual performance evaluation, taking account of the overall performance of the Company as a whole over the longer term; performance of the relevant business units; contribution of individual employees to the above performance; and the outlook of BOCI Group.

The Company implements an annual objective setting process as an instrument for employee's performance measurement. The performance evaluation process is a means for performance measure, which consists of the financial and non-financial factors as a basis for assessing the employee's performance during the annual performance evaluation.

13. REMUNERATION (continued)

(a) Remuneration policy (continued)

(ii) Remuneration structures (continued)

The total variable remuneration pool for the whole BOCI Group is expressed as a percentage of profit, adjusted for total fixed remuneration cost and various discretionary factors. After the variable remuneration pool has been endorsed by the Board of BOCI Group, the management works with Human Resources Function to allocate it across business units based on their financial and non-financial performance, the quantum and nature of the risk exposures and the market conditions, which comprises metrics related to shareholder, client and employee performance, and the realisation of medium to long-term strategic objectives. The business units' heads follow a similar approach when allocating the bonus to teams/individuals.

The variable remuneration of employees eligible to the deferred plan is paid on a deferral rate of at least 40% up to 3 years. Deferral of the payment of a portion of the variable remuneration will allow employees' performance, including the associated risks, to be observed and validated over a period of time before payment is actually made. The adjustment of the amount to be paid will enable the remuneration ultimately received by the employees to more accurately reflect the time horizon of risks and risk outcomes.

The award of variable remuneration and its amount will be made at the Company's sole discretion. If the payment is not justified by the performance of the Company or the business objectives are not achieved over the assessment period or when it is necessary to protect the financial soundness of the Company or it is under unexpected special circumstances, all or part of the variable remuneration may be withheld or deferred by the Company.

Remuneration of the risk control personnel shall be determined in accordance with their performance objectives and commensurate with their key role in the Company, and will be compensated independent of the performance of the business areas that they oversee.

Aggregate quantitative information on the remuneration for the Company's senior management and key personnel is set out below. Their remunerations are paid by BOCI Group companies. An apportionment has been made as the management considers that it is practicable to apportion this amount between their services to the Company and their services to BOCI Group companies. This was reviewed and approved in the regular meetings held by the NRC overseeing remuneration during the financial year. The Company followed the remuneration policy of holding a regular meeting (at least annually) to review the Company's remuneration system. The apportionment is recharged through management fee to the Company.

13. REMUNERATION (continued)

(b) Remuneration awarded during the financial year

(HK$)			2020	
Remuneration amount and quantitative information			**Senior management**	**Key personnel**
1	Fixed remuneration	Number of employees	10	6
2		Total fixed remuneration	16,199,302	3,723,794
3		Of which: cash-based	16,199,302	3,723,794
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	10	6
10		Total variable remuneration	8,570,140	2,236,490
11		Of which: cash-based	8,570,140	2,236,490
12		Of which: deferred	3,428,057	894,596
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration**		**24,769,442**	**5,960,284**

13. REMUNERATION (continued)

(b) Remuneration awarded during the financial year (continued)

(HK$)			2019	
Remuneration amount and quantitative information			**Senior management**	**Key personnel**
1	Fixed remuneration	Number of employees	9	7
2		Total fixed remuneration	15,544,775	3,711,491
3		Of which: cash-based	15,544,775	3,711,491
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	9	7
10		Total variable remuneration	11,806,000	1,635,400
11		Of which: cash-based	11,806,000	1,635,400
12		Of which: deferred	4,722,400	654,160
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration**		**27,350,775**	**5,346,891**

13. REMUNERATION (continued)

(c) Special payments

(HK$)		2020					
		Guaranteed bonuses		Sign-on awards		Severance payments	
Special payments		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	-	-	-	-

(HK$)		2019					
		Guaranteed bonuses		Sign-on awards		Severance payments	
Special payments		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	1	85,274	1	232,845	-	-
2	Key personnel	-	-	-	-	-	-

There is no severance payment awarded and actually made to Senior Management and Key Personnel during 2020 (2019: Nil).

(d) Deferred remuneration

(HK$)		2020				
Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management					
2	Cash	1,877,233	-	-	-	12,716,835
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	392,816	-	-	-	1,886,281
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	2,270,049	-	-	-	14,603,116

13. REMUNERATION (continued)

(d) Deferred remuneration (continued)

(HK$)		2019				
Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management					
2	Cash	2,720,068	-	-	-	13,055,017
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	310,000	-	-	-	2,058,000
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Total**	**3,030,068**	**-**	**-**	**-**	**15,113,017**

There is no amount of deferred remuneration reduced through performance adjustments for Senior Management and Key Personnel during 2020 (2019: Nil).

There is no amount of reductions due to ex post explicit adjustments and/or due to ex post implicit adjustments for Senior Management and Key Personnel during 2020 (2019: Nil).

14. SEGMENTAL INFORMATION

(i) Segmental information by geographical area

All income, profit or loss, assets, liabilities and off-balance sheet items of the Group are derived from Hong Kong.

(ii) Segmental information by class of business

The main business segment of the Group is as follows:

Private banking	Provides a range of services for high net-worth individual clients and corporate clients

The Group's business segment results for 2020 and 2019 are as follows:

	2020 Private banking HK$'000	2019 Private banking HK$'000
Net interest income	111,482	138,599
Net fee and commission income	184,151	119,368
Net trading gains	11,828	11,278
Operating income	307,461	269,245
Other income	171	-
Operating expenses	(246,312)	(232,114)
Profit before impairment allowances	61,320	37,131
Net (charge)/release of impairment allowances	(97)	75
Profit before taxation	61,223	37,206
Segment assets	9,324,327	9,686,725
Segment liabilities	7,662,095	8,075,643

15. LOANS AND ADVANCES TO CUSTOMERS

(i) Loans and advances to customers by industry sectors

At 31 December 2020	Gross advances	% covered by collateral or other security	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	%	HK$'000	HK$'000	HK$'000	HK$'000
Loans for use in Hong Kong						
Individuals						
- Loans for other private purpose	4,141,790	100%	1,266	1,266	1	1,266
Financial concerns						
- Investment companies	750,941	100%	-	-	-	-
	4,892,731					
Loans for use outside Hong Kong	-	-				
	4,892,731					

At 31 December 2019	Gross advances	% covered by collateral or other security	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	%	HK$'000	HK$'000	HK$'000	HK$'000
Loans for use in Hong Kong						
Individuals						
- Loans for other private purpose	4,221,800	100%	1,272	1,272	1	1,272
Financial concerns						
- Investment companies	827,782	100%	-	-	-	-
	5,049,582					
Loans for use outside Hong Kong	-	-				
	5,049,582					

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) Loans and advances to customers by geographical areas

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor. Only regions constituting 10% or more of the aggregate gross advances to customers are separately disclosed.

At 31 December 2020	Gross advances	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	2,524,596	1,266	1,266	1	1,266
Mainland China	1,929,566	-	-	-	-
Others	438,569	-	-	-	-
	4,892,731	1,266	1,266	1	1,266

At 31 December 2019	Gross advances	Classified or impaired loans	Overdue loans	Stage 1 impairment allowances	Stage 3 impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	2,549,251	1,272	1,272	1	1,272
Mainland China	1,903,779	-	-	-	-
Others	596,552	-	-	-	-
	5,049,582	1,272	1,272	1	1,272

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

(iii) Non-bank mainland exposures

Below is a breakdown of the Company's mainland exposures to non-bank counterparties. The below figures are disclosed in accordance with the return relating to Mainland Activities submitted to the HKMA.

Type of counterparties	On-balance sheet exposures HK$'000	Off-balance sheet exposures HK$'000	Total exposures HK$'000
At 31 December 2020			
Central government, central government-owned entities and their subsidiaries and joint ventures	-	7,149	7,149
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,476,528	9	1,476,537
Other counterparties where the exposures are considered to be non-bank Mainland China exposures	152,301	-	152,301
	1,628,829	7,158	1,635,987
Total assets after provision	9,324,327		
On-balance sheet exposures as percentage of total assets	17.47%		

Type of counterparties	On-balance sheet exposures HK$'000	Off-balance sheet exposures HK$'000	Total exposures HK$'000
At 31 December 2019			
Central government, central government-owned entities and their subsidiaries and joint ventures	174	7,218	7,392
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1,473,304	-	1,473,304
Other counterparties where the exposures are considered to be non-bank Mainland China exposures	310,674	-	310,674
	1,784,152	7,218	1,791,310
Total assets after provision	9,686,725		
On-balance sheet exposures as percentage of total assets	18.42%		

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

(iv) Rescheduled assets

There were no rescheduled loans and advances to customers, banks and other financial institutions and rescheduled debt securities as at 31 December 2020 (2019: Nil).

(v) Repossessed assets

There were no repossessed assets as at 31 December 2020 (2019: Nil).

16. CURRENCY CONCENTRATIONS

	USD	CNY	JPY	CAD	CHF	SGD	NZD	EUR	GBP	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2020											
Spot assets	3,457,072	32,541	72,086	6,640	17,052	8,021	2,541	278,719	7,024	28,718	3,910,414
Spot liabilities	(3,720,041)	(795,948)	(13,545)	(3,652)	-	(26,992)	-	(9,719)	(10,580)	(33,616)	(4,614,093)
Forward purchases	1,096,549	778,264	11,271	3,041	-	26,977	-	19,053	5,290	13,136	1,953,581
Forward sales	(858,337)	(7,145)	(60,109)	-	(11,431)	(3,519)	-	(285,797)	-	(8,498)	(1,234,836)
Net long/(short) position	(24,757)	7,712	9,703	6,029	5,621	4,487	2,541	2,256	1,734	(260)	15,066

	CNY	Others	Total
	HK$'000	HK$'000	HK$'000
2019			
Spot assets	70,057	3,036,287	3,106,344
Spot liabilities	(708,877)	(2,302,869)	(3,011,746)
Forward purchases	661,116	1,183,583	1,844,699
Forward sales	(18,361)	(1,914,093)	(1,932,454)
Net long/(short) position	3,935	2,908	6,843

There were no net structural positions as at 31 December 2020 and 31 December 2019.

17. INTERNATIONAL CLAIMS

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

Analysis of cross-border claims by location and type of counterparty is as follows:

		Non-bank private sector			
	Banks HK$ million	Official sector HK$ million	Non-bank financial institutions HK$ million	Non-financial private sector HK$ million	Total HK$ million
At 31 December 2020					
Developed countries	274	-	194	301	769
Offshore centres	174	-	6	210	390
Developing Latin America and Caribbean	-	-	-	6	6
Developing Africa and Middle East	-	-	-	118	118
Developing Asia and Pacific	3,122	-	20	2,372	5,514
Of which: China	*3,122*	-	*20*	*2,276*	*5,418*
	3,570	-	220	3,007	6,797

17. INTERNATIONAL CLAIMS (continued)

		Non-bank private sector			
	Banks HK$ million	Official sector HK$ million	Non-bank financial institutions HK$ million	Non-financial private sector HK$ million	Total HK$ million
At 31 December 2019					
Developed countries	29	-	219	32	280
Offshore centres	319	-	19	169	507
Developing Latin America and Caribbean	-	-	-	5	5
Developing Africa and Middle East	4	-	-	66	70
Developing Asia and Pacific	4,103	-	23	2,271	6,397
Of which: China	*4,095*	-	*23*	*2,103*	*6,221*
	4,455	-	261	2,543	7,259

18. CORPORATE GOVERNANCE

The Company recognises the importance of sound corporate governance. The Company follows and has complied with the guidelines set out in the HKMA Supervisory Policy Manual module "CG-1 Corporate Governance of Locally Incorporated Authorized Institutions".

All staff members of the Company are expected to consistently maintain high ethical standards and are required to strictly follow the Code of Conduct. The Code of Conduct sets out standards and values to which all the Company's staff members are required to adhere. Topics including, but not limited to, use of information, responsible business conduct, equal opportunity, and conduct when obtaining business, are covered by the Code of Conduct. The Company periodically reminds staff of the requirement to adhere to the Code of Conduct via various communication channels.

(a) Board of Directors

The Board of the Company consists of seven directors.

The Board is responsible for leading, overseeing and managing the development of the Company to maximise shareholder's return by balancing risk exposures. The Board is responsible for formulating the Company's short-term and long-term business strategies and monitoring the implementation thereof.

The Board authorises the management to carry on the daily operation of the Company. The Board is responsible for overseeing the implementation of strategies and business by the management. The Board is also responsible for making decisions on matters that the management has not been empowered.

Under the Board, there are four committees, namely Audit Committee, Risk Committee, Nomination and Remuneration Committee and Strategy and Budget Committee to assist it in carrying out its responsibilities.

(b) Audit Committee

The AC consists of four members, all are non-executive directors (two are independent non-executive directors). The AC is chaired by an independent non-executive director. The AC held four meetings during the year ended 31 December 2020.

It assists the Board in overseeing and supervision of the risk management and internal control of the Company; the integrity of the Company's audited financial statements; the performance of Internal Audit function and also the qualifications, independence and service level of the external auditor of the Company.

(c) Risk Committee

The RC of the Company was established under the Board. It consists of three members, two independent non-executive directors (including the Chairperson), and one is non-executive director. Four meetings were held during the year ended 31 December 2020.

The principal objective of the RC is to provide independent oversight and guidance to the Board and senior management on risk issues in the areas of market, credit, operational, interest rate, liquidity, legal, compliance and reputation risks of the Company. It is responsible for organising, advising, coordinating and monitoring the risk management within the Company.

18. CORPORATE GOVERNANCE (continued)

(c) Risk Committee (continued)

The RC is authorised by the Board to perform the following key functions:

- Review and provide recommendation of the Company's risk appetite, risk management strategies, risk policies and guidelines and the adequacy of the Company's risk management framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;

- Oversee the establishment and maintenance of appropriate infrastructure, resources and systems for risk management, particularly in relation to the Company's adherence to the approved risk appetite and related policies;

- Oversee the strategies for capital and liquidity management, and the design and execution of stress testing and scenario analyses for all relevant risks of the Company;

- Review and examine periodic reports provided by the senior management on the state of the Company's risk culture, risk exposure and risk management activities; and

- Review and recommend to the Board for the approval of new business that exceed the EC's authority and approve risk limits and significant business transactions according to the authority delegated by the Board.

The risk appetite is the predefined extent of risk, which the Company is willing to take and tolerate, to maintain prudential operation and continuous development and realize the strategic objective, in line with the appeals and expectations of depositors, regulators, shareholder and other major stakeholders. The risk appetite is an important component of the business and risk strategies of the Company, and guides operation and management.

The Company operates in a legal, compliant and prudential manner, mitigates systematic risks, maintains reasonable capital adequacy level and sufficient liquidity, and strives to achieve a satisfactory return to the shareholder. The Company establishes the comprehensive risk management system suitable to the business strategy, improves governance, improves frameworks, optimizes operational process, develops risk management technologies and tools, identifies, measures, reports, controls and mitigates all materials risks in time, builds the economic capital management system step by step, and controls the risk level within the scope set by the risk appetite.

It is expressed in the Company's risk appetite statement as defined by different levels of thresholds in relation to various major risk areas the Company exposes to. The thresholds determine the maximum levels of risk the Company can assume before breaching the internal limits or regulatory requirements.

The Board oversees the implementation of the relevant procedures and controls of the risk appetite framework. The RC supervises the Company's overall risk culture in accordance with the risk appetite statement. Periodic risk appetite reports are presented to senior management. Business units perform the necessary controls in the context of the risk appetite statement and report any major issues under the predefined escalation requirements for further action.

18. CORPORATE GOVERNANCE (continued)

(d) Nomination and Remuneration Committee

The Nomination and Remuneration Committee (the "NRC"), which is composed of one independent non-executive director (Chairman) and two non-executive directors, assists the Board in identifying and nominating candidates as directors and senior management of the Company for appointment for the approval of the Board as well as in its overseeing the formulation and implementation of the Company's remuneration system. It also advises and assists the Board in discharging its responsibilities for the Company's culture-related matters. The NRC held four meetings and passed eight written solutions during the year ended 31 December 2020.

(e) Strategy and Budget Committee

The Strategy and Budget Committee (the "SBC"), which is composed of three members, including the Chairman, the Chief Executive and the Manager of IT Function. None of the SBC members is independent non-executive director. The SBC convened five meetings by written resolutions during the year ended 31 December 2020.

It advises the Board on the Company's medium to long-term development needs and goals, the Company's strategic business plan, annual financial budget, major investments, capital expenditure, and strategic commitments of the Company. It also assists the Board in overseeing the implementation status of the Company's strategic and budgetary plans, evaluating the level and trend of the Company's strategic risk as well as the adequacy and effectiveness of the Company's strategic risk management framework.

(f) Executive Committee

The EC is composed of ten members, including the Chief Executive and the Alternate Chief Executive. The Chief Executive shall act as the Chairperson of the EC. Appointment of other EC's members shall be recommended by Chief Executive for the Board's approval. The EC is responsible for the implementation of the approved strategies, and the oversight and coordination of business development, management and operation. None of the EC members is independent non-executive director. The EC held five meetings during the year ended 31 December 2020.

(g) Asset and Liability Committee

The ALCO is a sub-committee of the EC.

The principal objective of the ALCO is to oversee the management of assets and liabilities. In particular, the committee is charged with the responsibilities to:

- Formulate strategies and tactics in the allocation of asset and liability;
- Provide oversight on interest rate, liquidity and foreign exchange rate risks in accordance with the Company's risk management framework adopted by the RC or the Board;
- Oversee capital matters, including capital planning and allocation of capital; and
- Formulate relevant policies and important guidelines in accordance with the authorization of EC.

18. CORPORATE GOVERNANCE (continued)

(g) Asset and Liability Committee (continued)

The ALCO is composed of the senior staff including the Chief Executive, the Head of Finance, the Head of Treasury, the Chief Risk Officer, and the Head of Compliance. All the ALCO members, including the Chairperson, are appointed by the EC. None of the ALCO members is independent non-executive director. The ALCO held four meetings during the year ended 31 December 2020.

The ALCO is authorized by the EC to perform the following functions:

- To formulate and recommend strategies on asset and liability management;
- To formulate and recommend strategies on capital matters, including capital planning and allocation;
- To oversee interest rate, foreign exchange and liquidity risks in accordance with the guidelines approved by the RCCC and/or the policies approved by the EC and RC/ the Board;
- To review and recommend guidelines on capital matters to the EC for approval and policy on capital matters to the EC and SBC/ the Board for approval;
- At the request from any relevant regulatory authorities, to assist the Board and the EC to examine and report on the Company's risk status and any relevant risk management issues associated with asset and liability management;
- Where the EC or the Board has delegated the approval authority to the Committee, to review and approve asset and liability transactions, and delegation of relevant limits; and
- To act on other issues as directed by the EC and the Board.

19. APPROACH FOR RECRUITMENT AND SELECTION OF MEMBERS OF THE BOARD

The Company places great emphasis on fitness and propriety of directors. It has formulated the Selection, Appointment and Succession Policy of the Board of Directors, which lays out the fit and proper criteria that the Board shall consider whether a proposed candidate is suitable and appropriate for the appointment as director of the Company. All director appointments are made on merit, in the context of the skills and experience to the Board as a whole requires, taking into account various aspects of the Board diversity which include but not limited to professional experience, skills and knowledge, etc. Currently the Board comprises seven members, two executive directors, three non-executive directors and two independent non-executive directors. All of them satisfied the requirements of HKMA of being a fit and proper person to occupy their positions as directors of the Company.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS

Role	Name	Information
Chairman	WANG Zhongze	Profile 1
Board Members	TANG Fong Chai Francis	Profile 2
	QIAN Feng	Profile 3
	LAM Kwong Siu	Profile 4
	IP Sio Kai	Profile 5
Independent Non-executive Directors	WONG Wai Kwan Anna	Profile 6
	LIE Kong Sang	Profile 7
Acting Chief Risk Officer	WONG Sai Chung (Jason)	Appointed on 21 January 2021
Chief Risk Officer	TAN Sock Hiang Susan	Resigned on 21 January 2021
Head of Internal Audit Division	LI Yi Hong Ally	Appointed on 29 June 2018

The information about Board Members below is as of 31 December 2020.

Profile 1 – WANG Zhongze
Mr. WANG Zhongze, aged 58, is the Chairman of the Board of Directors, the Chairman of Strategy & Budget Committee and a member of Nomination and Remuneration Committee of the Company. He is currently a member of Executive Committee of BOC International Holdings Limited.

Mr. WANG joined the State Energy Investment Corporation of China in 1990, and served sequentially as Engineer, Senior Engineer of Electric Power Technology Development Department and Deputy Divisional Head of Electric Power Project Department. In 1994, he joined China Development Bank and served sequentially as Deputy Divisional Head, Divisional Head of Electric Power Project Department and Divisional Head of International Finance Department. In 2000, Mr. WANG joined China Everbright Group and concurrently served as Deputy General Manager & Executive Director of China Everbright International Ltd (stock code: 257) and Chief Finance Officer & Executive Director of Hong Kong Construction Holdings Ltd (stock code: 190). He later served as Director of China Everbright Holdings Ltd mainly in charge of Finance Management Department.

Mr. WANG received a Doctoral Degree in Engineering from Tsinghua University, China, and an EMBA Degree from Richard Ivey School of Business, the University of Western Ontario, Canada. Mr. WANG is also a Member of HKICPA.

Mr. WANG also holds a number of directorships in other group companies of BOC International Holdings Limited including BOCI Asset Management Limited, BOCI Investment Limited (incorporated in Hong Kong), BOCI Nominees Limited, BOCI Secretaries Limited, BOCI Finance Limited, BOCI Investment Limited (incorporated in BVI), BOCI Global Commodities Holdings Limited, BOCI Global Commodities Limited, BOCI Global Commodities (UK) Limited, BOCI Commodities Trading (China) Co. Limited, BOCI Commodities & Futures (USA) LLC, BOC International Singapore Holdings Pte. Ltd., BOCI Fidential Holdings Limited, BOCI Financial Products Limited, Bank of China International (UK) Limited, BOCI Securities Limited, BOCI Prudential Asset Management Limited and BHR Equity Investment Fund Management Co., Ltd.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS (continued)

Profile 2 – TANG Fong Chai Francis
Mr. TANG Fong Chai Francis, joined BOCI group in 2016. He is an Executive Director, the Chief Executive and a member of Strategy & Budget Committee of the Company. Prior to joining BOCI group, Mr. TANG has more than 30 years of experience in the banking industry with various international financial institutions covering different aspects including corporate banking, investment banking and private banking business. Mr. TANG holds a bachelor's degree in Business Administration from The Chinese University of Hong Kong in 1985.

Mr. TANG holds a number of directorships in the group companies of BOC International Holdings Limited including BOCI Fidential Holdings Limited, BOCI International Management Limited, BOCI Trustee (Hong Kong) Limited, BOCI Trustee (BVI) Limited, BOCI Private Wealth Management Limited and BOC Group Trustee Company Limited.

Profile 3 – QIAN Feng
Mr. QIAN Feng, aged 52, is an Executive Director and Alternate Chief Executive of the Company. Mr. QIAN has more than 25 years of experience in banking and brokerage business. Before joining the group of BOC International Holdings Limited in 2003, Mr. QIAN served as Deputy Head of Business Management, Global Markets Department of Bank of China Limited, and an Assistant Manager of Treasury Department of Bank of China Limited, Sydney Branch.

Mr. QIAN holds a bachelor degree in Economics from Renmin University of China and a master degree in Economics from PBC School of Finance, Tsinghua University of China.

Mr. QIAN holds a number of directorships in the group companies of BOC International Holdings Limited including BOCI Securities Limited, BOCI Finance Limited, BOCI Asia Limited, BOCI Bullion Company Limited and BOCI Financial Products Limited.

Profile 4 – LAM Kwong Siu
Mr. LAM Kwong Siu GBS and SBS, aged 86, is a Non-executive Director and member of each of Audit Committee and Nomination & Remuneration Committee of the Company. Mr. LAM has more than 50 years of banking experience. Currently, Mr. LAM serves as a Vice Chairman of BOC International Holdings Limited. He also serves as the honorary chairman of the Hong Kong Federation of Fujian Associations, life honorary chairman of the Hong Kong Fukien Chamber of Commerce, vice chairman of the Fujian Hong Kong Economic Co-operation, life honorary chairman of the Chinese General Chamber of Commerce, adviser of the Hong Kong Chinese Enterprises Association and the honorary president of the Chinese Bankers Club of Hong Kong.

In addition, Mr. LAM has been serving as an Independent Non-executive Director of Fujin Holdings Ltd. (stock code: 181) since December 2003, an Independent Non-executive Director of Xinyi Glass Holdings Limited (stock code: 868) since August 2004, a Driector of BOC Poverty Relief and Education Charity Fund Limited since November 2008, an Independent Non-executive Director of Yuzhou Properties Company Limited (stock code: 1628) since October 2009, an Independent Non-executive Director of Far East Consortium International Limited (stock code: 035) since September 2011 and an Independent Non-executive Director of Skymission (Global) Group Holdings Limited (stock code: 1429) since November 2019.

Mr. LAM was awarded the HKSAR Silver Bauhinia Star and Gold Bauhinia Star in 2003 and 2016 respectively. He was a delegate of the 10th National People's Congress.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS (continued)

Profile 5 – IP Sio Kai
Mr. IP Sio Kai, aged 60, is a Non-executive Director and member of the Audit Committee and the Risk Committee of the Company. Mr. IP has more than 30 years of banking experience. Currently, Mr. IP serves as a Deputy General Manager of Bank of China Limited Macau Branch. He also serves as the Member of Legislative Assembly of Macau Special Administrative Region, Member of the Economic Development Committee of Macau Special Administrative Region, Member of The Standing committee of the coordination of Social Affairs of Macau Special Administrative Region, Member of the Board of Trustees of Cultural Industry Fund of Macau Special Administrative Region, Chairman of the Macau Association of Banks and the Chairman of the Macau Gold & Silver Business Association. Mr. IP received Master of Management from Sun Yat-Sen University, Guangzhou, China.

Profile 6 – WONG Wai Kwan Anna
Ms. WONG Wai Kwan Anna, aged 61, is an Independent Non-executive Director, Chairperson of the Risk Committee and member of Audit Committee of the Company. Ms. WONG is a Professor of Practice in Finance at the Faculty of Business and Economics and the Program Director of the Bachelor of Finance (Asset Management and Private Banking) at the University of Hong Kong. She teaches financial regulations, compliance and credit risk management at the Faculty. She is a regular speaker at professional institutions on topics relating to private wealth management and the local regulatory framework.

Ms. WONG has an extensive experience in banking and finance. She had worked in major financial institutions including Citigroup, HSBC, Credit Suisse, BNP Paribas and the Chase Manhattan Bank, covering private banking, asset management, securities brokerage, corporate and commercial banking, credit and risk management. She was the Head of Private Bank, Greater China at Credit Suisse and the CEO of HSBC Broking Services (Asia) Limited. She had held Executive Officer/Responsible Officer position of various financial institutions covering type 1, 2, 3, 4, 6 and 9 licensed activities.

Ms. WONG is a Senior Fellow of the Hong Kong Securities and Investment Institute, a Chapter Honoree of the Chinese University of Hong Kong Chapter of Beta Gamma Sigma, a Non-executive Director of the Insurance Authority, a member of the Competition Commission and a Director of the Hong Kong Sports Institute. Her previous appointments included member of the Advisory Committee of the Securities and Futures Commission, a temporary member of the Financial Reporting Council, Director of the Hong Kong Securities and Investment Institute, Honorary Advisor of the Hong Kong Institute of Bankers and Director of the Hong Kong Securities Association Limited.

Ms. WONG received B.A. from the University of Hong Kong, M.B.A. from the Chinese University of Hong Kong and Juris Doctor from the University of Hong Kong.

20. INFORMATION ABOUT BOARD MEMBERS AND SENIOR STAFF MEMBERS (continued)

Profile 7 – LIE Kwong Sang

Mr. LIE Kong Sang, aged 55, is an Independent Non-executive Director, Chairman of the Audit Committee and the Nomination & Remuneration Committee, member of the Risk Committee of the Company. Mr. LIE has over 27 years of experience in providing assurance and advisory services to global and local financial institutions, fund management companies, service providers and traditional, hedge, private equity and real estate funds. He was an Assurance Partner in the Financial Services of PricewaterhouseCoopers, Hong Kong before he retired from the partnership in 2015.

Mr. LIE was conferred by Hong Kong Institute of Certified Public Accountants as a certified public accountant in November 1993. Mr. LIE has also been a member of Hong Kong Securities Institute since April 2011 and a fellow member of The Association of Chartered Certified Accountants since May 1998. Mr. LIE graduated from the University of Glasgow in the United Kingdom with a bachelor degree in accountancy in 1988. Mr. Lie has also been serving as an Independent Non-Executive Director of Tahoe Life Insurance Company Limited since June 2017 and Pamfleet GP III Limited since October 2018.

21. KEY ELEMENTS OF THE DISCLOSURE POLICY

The banking disclosures are governed by the Company's Disclosure Policy, which has been approved by the Board. The Disclosure Policy sets out the governance, control and assurance requirements for publication of the document. While the supplementary information is not required to be externally audited, the document has been subject to independent review in accordance with the Company's policies on disclosure and its financial reporting and governance process.

The Disclosure Policy of the Company is prepared in accordance with the requirements specified in the Banking (Disclosure) Rules, the applicable accounting standards and the HKMA Supervisory Policy Manual CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules".