Kexim Asia Limited

Report of the Directors and Audited Financial Statements

31 December 2020

KEXIM ASIA LIMITED
CONTENTS

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Kexim Asia Limited (the "Company") for the year ended 31 December 2020.

Principal activities
The Company is engaged in deposit taking, loan syndication, investment and the provision of financial services.

Results and dividends
The Company's profit for the year ended 31 December 2020 and the Company's financial position at that date are set out in the financial statements on pages 5 to 64.

The directors recommend the payment of a final dividend of US$150,190 (2019: US$131,610) in respect of the year ended 31 December 2020.

Share capital
Details of movements in the Company's share capital during the year are set out in note 21 to the financial statements.

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

Executive directors

Kwon Min Yung	(Resigned on 8 January 2020)
Huh Jung Ok	(Appointed on 8 January 2020)
Suh Mil Hee	(Resigned on 4 September 2020)
Ok Young Chul	(Resigned on 4 September 2020)
Cho In Sun Elizabeth	(Appointed on 4 September 2020)
Shin Yookeun	(Appointed on 4 September 2020)

Non-executive directors

Hong Sunghoon	(Resigned on 29 January 2021)
Lim Kyung Sup	(Appointed on 29 January 2021)
Gu Ja Young	(Resigned on 19 April 2021)
Kim Taebum	(Appointed on 19 April 2021)

Independent non-executive director

Jo Sang Kyun	(Resigned on 17 January 2020)
Choi Jung Ha	(Appointed on 6 April 2020)

There being no provision to the contrary in the Company's Articles of Association, all existing directors shall remain in office.

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

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

Compliance with the Banking (Disclosure) Rules
The Company is required to comply with the Banking (Disclosure) Rules effective from 1 January 2007. The Banking (Disclosure) Rules set out the minimum standards for public disclosure which authorised institutions must make in respect of the statement of profit or loss, state of affairs and capital adequacy.

The directors are of the view that the financial statements together with the attached unaudited supplementary information on pages 5 to 77 for the year ended 31 December 2020 fully comply with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

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

ON BEHALF OF THE BOARD

....
Shin Yookeun
Managing Director

Hong Kong
28 April 2021

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

Opinion
We have audited the financial statements of Kexim Asia Limited (the "Company") set out on pages 5 to 64, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young

Certified Public Accountants
Hong Kong
28 April 2021

KEXIM ASIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 US$	2019 US$
Interest income	4	9,954,885	15,711,563
Interest expenses	4	(4,748,297)	(10,603,971)
Net interest income		5,206,588	5,107,592
Fee and commission income	5	267,735	290,776
Fee and commission expenses	5	(34,733)	(13,254)
Net fee and commission income		233,002	277,522
Net loss on foreign exchange		(2,155)	(2,064)
Net gain on sale of debt investment securities at fair value through other comprehensive income	6	645,514	435,880
Other income		28,889	3,069
Operating income		6,111,838	5,821,999
Operating expenses	7	(2,615,497)	(2,527,865)
Operating profit		3,496,341	3,294,134
Net release/(charge) of impairment allowances	9	70,994	(195,340)
PROFIT BEFORE TAX		3,567,335	3,098,794
Income tax	10	(563,539)	(466,593)
PROFIT FOR THE YEAR		3,003,796	2,632,201
OTHER COMPREHENSIVE INCOME			
Other comprehensive income for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Debt investment securities at fair value through other comprehensive income: net movement in fair value reserve (recycling)	11	213,103	2,591,198
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,216,899	5,223,399

KEXIM ASIA LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 US$	2019 US$
ASSETS			
Cash and bank balances with banks and other financial institutions		12,003,403	5,770,310
Loans and advances to banks and other financial institutions	14	33,273,273	35,164,741
Loans and advances to customers	14	255,246,740	234,624,387
Investment securities	15	195,590,714	152,678,700
Deferred tax assets	12	13,614	66,746
Other assets	16	3,073,414	2,219,038
Property and equipment	13	633,630	1,051,168
TOTAL ASSETS		499,834,788	431,575,090
LIABILITIES			
Deposits and balances from banks and other financial institutions		219,086,669	200,309,409
Deposits and balances from the ultimate holding company		9,000,000	-
Tax payable		24,223	564,041
Other liabilities	17	644,603	1,219,588
Borrowings from other financial institutions	19	-	30,000,000
Borrowings from the ultimate holding company	18	90,000,000	121,031,194
Subordinated liabilities	20	14,987,070	14,982,056
Lease liabilities	13	561,969	1,023,837
Total liabilities		334,304,534	369,130,125
EQUITY			
Share capital	21	130,000,000	30,000,000
Reserves	22	35,530,254	32,444,965
Total equity		165,530,254	62,444,965
TOTAL LIABILITIES AND EQUITY		499,834,788	431,575,090

Shin Yookeun
Director

Huh Jung Ok
Director

KEXIM ASIA LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Note	Share capital US$	Retained profits* US$	Fair value reserve US$	Total US$
At 1 January 2019		30,000,000	29,365,301	(2,030,188)	57,335,113
Profit for the year		-	2,632,201	-	2,632,201
Other comprehensive income		-	-	2,591,198	2,591,198
Total comprehensive income		-	2,632,201	2,591,198	5,223,399
Dividends declared in respect of prior year and paid during the year	23	-	(113,547)	-	(113,547)
At 31 December 2019 and 1 January 2020		30,000,000	31,883,955	561,010	62,444,965
Profit for the year		-	3,003,796	-	3,003,796
Other comprehensive income		-	-	213,103	213,103
Total comprehensive income		-	3,003,796	213,103	3,216,899
Issue of shares	21	100,000,000	-	-	100,000,000
Dividends declared in respect of prior year and paid during the year	23	-	(131,610)	-	(131,610)
Amounts transferred from fair value Reserve to retained profits		-	(111,774)	111,774	-
At 31 December 2020		130,000,000	34,644,367	885,887	165,530,254

* As at 31 December 2020, the Company has earmarked US$1,145,072 (2019: US$1,850,585) as regulatory reserve from retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained profits and in consultation with the HKMA.

KEXIM ASIA LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 US$	2019 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,567,335	3,098,794
Adjustments for:			
Interest expense on borrowings	4(b)	1,396,813	4,379,597
Interest expense on subordinated liabilities	4(b)	389,257	620,531
Interest expense on lease liabilities	4(b)	23,014	31,068
Net (release)/charge of impairment allowances on loans and advances	9	(89,203)	197,312
Net charge/(release) of impairment allowances on investment securities	9	9,379	(3,782)
Net gain on disposal of investment securities	6	(645,514)	(435,880)
Depreciation	7(b)	703,985	671,487
Exchange loss on revaluation of lease liabilities		-	7,667
		5,355,066	8,566,794
Decrease/(increase) in loans and advances to banks and other financial institutions		1,900,025	(4,272,727)
Increase in loans and advances to customers		(20,541,707)	(4,496,737)
Increase in investment securities		(42,022,564)	(5,450,433)
(Increase)/decrease in other assets		(854,376)	213,777
Increase in deposits and balances from banks and other financial institutions		18,777,260	22,443,586
Increase in deposits and balances from the ultimate holding company		9,000,000	-
Decrease in other liabilities		(877,116)	(469,811)
Cash generated from operations		29,263,412	16,534,449
Hong Kong profits tax paid		(589,768)	-
Net cash flows generated from operating activities		29,853,180	16,534,449
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	13	(64,187)	(20,728)
Net cash flows used in investing activities		(64,187)	(20,728)

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2020

	Note	2020 US$	2019 US$
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	21	100,000,000	-
New borrowings	26	455,825,087	321,927,573
Repayments of borrowings	26	(516,856,281)	(334,048,315)
Interest paid on subordinated liabilities	26	(388,547)	(617,355)
Interest paid on borrowings	26	(1,591,047)	(4,382,773)
Capital element of lease rentals paid	13	(684,128)	(650,974)
Interest element of lease rentals paid	13	(23,014)	(31,068)
Dividend paid	23	(131,610)	(113,547)
Net cash flows generated from/(used in) financing activities		36,150,460	(17,916,459)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		6,233,093	(1,402,738)
Cash and cash equivalents at 1 January		5,770,310	7,173,048
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		12,003,403	5,770,310

1. CORPORATE INFORMATION

Kexim Asia Limited (the "Company") is a limited company incorporated and domiciled in Hong Kong. It is a deposit-taking company registered under the Banking Ordinance in Hong Kong. It is engaged in the deposit-taking, loan syndication, investment and the provision of financial services. The registered office and principal place of business of the Company is Unit 2904, 29/F, Central Plaza, 18 Habour Road, Wanchai, Hong Kong.

In the opinion of the directors, the holding company is The Export-Import Bank of Korea, which is incorporated in the Republic of Korea.

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, except for debt investments at fair value through other comprehensive income, which have been measured at fair value. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest dollar except when otherwise indicated.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS39 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*

Other than as explained below regarding the impact of the *Conceptual Framework for Financial Reporting 2018*, HKFRS 3, Amendments to HKFRS 9, HKAS39 and HKFRS 7 and Amendments to HKAS1 and HKAS 8 , the adoption of the above revised standards has had no significant financial effect on these financial statements

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Company.

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

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

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS39, 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]
Amentments to HKFRS 17	*Insurance Contracts*[3,6]
Amentments 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 Interpretaiotn 5 Presetation 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

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

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

The Company had certain interest-bearing bank borrowings denominated in United States dollars based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Company will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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 permited. The amendments are not expected to have any significant impact on the Company's financial statements.

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

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

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

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 Company 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 Company's financial statements.

- HKFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that result from transactions within the scope of HKFRS 15 and that do not contain a significant financing component or for which the Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that result from transactions within the scope of HKFRS 15 and that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
Subsequent measurement (continued)
Financial assets at amortised cost (debt instruments) (continued)
The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method ("EIR") and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
The Company measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

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

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

Offsetting of financial instruments

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

Impairment of financial assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

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

Repos or securities lending are initially recorded in the statement of financial position as cash collateral on securities lent and repurchase agreement at the actual amount of cash received from the counterparty. Financial assets given as collateral for repurchase agreements are not derecognised and are recorded as financial assets at fair value through profit or loss on the financial statement of financial position. Reverse repos or securities borrowing are initially recorded in the statement of financial position as cash collateral as securities borrowed and reverse repos at the actual amount of cash paid to the counterparty. Financial assets received as collateral under reverse repurchase agreements are not recognised on the statement of financial position. The difference between sale and repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment is required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

- Leasehold improvements	3 years
- Computer equipment	3 - 5 years
- Furniture and fixtures	3 - 5 years
- Motor vehicles	5 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- Premises, properties and vehicles leased for own use — Over the unexpired term of lease

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

Lease liabilities
Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for termination of a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Interest income

Interest income for all interest-bearing financial instruments is recognised as it accrues using the effective interest method.

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

For impaired loans, the accrual of interest income based on the original terms of the loans is discounted, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Fee and commission income

Fee and commission income that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate calculation as noted above.

Other fee and commission income is recognised in the income statement when the corresponding service is provided. Origination or commitment fees received by the Company which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If it is uncertain that a loan commitment will result in draw-down of a loan, then the related loan commitment fee is recognised as revenue on a straight-line basis over the commitment period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Net trading income

Net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

Income tax

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Foreign currencies
These financial statements are presented in United States dollars, which is the Company's functional currency. Foreign currency transactions recorded by the Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary items 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 OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

or

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

Dividends

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Company's accounting policies, which are described in note 2.5, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Company applied judgements in determining the amount and timing of revenue arising from the provision of management and arrangement services.

For management, commitment and arrangement services, the Company concluded that revenue is recognised at a point in time when the Company has rendered the service to a customer and the Company has the present right of payment and the collection of the consideration is probable.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Company has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

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

Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on in-scope financial instruments under HKFRS 9

The Company uses an expected credit loss model to calculate ECLs for in-scope financial instruments under HKFRS 9. For other financial instruments, the provision rates are based on the estimated probability of default of companies with similar credit ratings, with adjustment to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The Company calibrates the model to adjust the expected credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the brokerage sector, the probability of default rates is adjusted. At each reporting date, the parameters are updated and changes in the forward-looking estimates are analysed.

The level of judgements and estimation uncertainty of ECL has increased since the outbreak of COVID-19 starting early 2020. More judgements have been applied in the identification of customers with increasing credit risk due to the worsened economic environment triggering update in the assessment criteria for significant increase in credit risk and design, selection and determination of the weighting of the economic scenarios given the rapidly changing economic conditions.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. Further details are contained in note 14, 15, and 28 to the financial statements.

Recognition of deferred tax assets

Deferred tax assets on unused tax losses are recognised and the determination of the amount to be recognised requires significant management judgement. Deferred tax asset on unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

At 31 December 2020, net deferred tax assets of US$13,614 (2019: US$66,746) have been recognised in the Company's statement of financial position in respect of the accelerated tax depreciation, impairment losses, changes of fair value of financial investments at fair value through other comprehensive income.

4. INTEREST INCOME AND INTEREST EXPENSES

	2020 US$	2019 US$
(a) Interest income		
Investment securities	2,998,995	4,773,798
Loans and advances to banks and other financial institutions	433,850	1,049,793
Loans and advances to customers	6,522,040	9,887,972
	9,954,885	15,711,563
(b) Interest expenses		
Deposits from banks and other financial institutions	2,939,213	5,572,775
Borrowings	1,396,813	4,379,597
Subordinated liabilities	389,257	620,531
Interest on lease liabilities	23,014	31,068
	4,748,297	10,603,971

All interest income derived from financial assets was calculated using effective interest rate method.

5. NET FEE AND COMMISSION INCOME

	2020 US$	2019 US$
(a) Fee and commission income		
Arrangement and management fee	267,735	290,776

The performance obligation is satisfied upon the Company has rendered the service to a customer. The contracts provide the Company the present right of payment and the collection of the consideration is probable.

	2020 US$	2019 US$
(b) Fee and commission expenses		
Foreign exchange transaction fees	34,733	13,254

6. NET GAIN ON SALE OF DEBT INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 US$	2019 US$
Net gain on sale of debt investment securities	645,514	435,880

7. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging:

	2020 US$	2019 US$
(a) Staff costs		
Salaries and other benefits	1,214,851	1,202,448
Contributions to Mandatory Provident Fund	12,644	10,989
	1,227,495	1,213,437
(b) Depreciation		
Depreciation of property and equipment	21,024	11,956
Depreciation of right-of-use assets	682,961	659,531
	703,985	671,487
(c) Other operating expenses		
Rental rates	33,989	14,623
Auditors' remuneration	94,760	187,266
Others	555,268	441,052
	684,017	642,941
	2,615,497	2,527,865

8. DIRECTORS' REMUNERATION

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

	2020 US$	2019 US$
Directors' fees	38,310	47,945
Salaries, allowances, pension scheme contributions and benefits in kind	303,509	358,399
	341,819	406,344

9. NET (RELEASE)/CHARGE OF IMPAIRMENT ALLOWANCES

	2020 US$	2019 US$
Loans and advances to banks and other financial institutions	(8,556)	(26,907)
Loans and advances to customers	(80,647)	224,219
Investment securities	9,379	(3,782)
Loan committments	8,830	1,810
Net (release)/charge of impairment allowances	(70,994)	195,340

10. INCOME TAX

Under the two-tiered profit tax rates regime, Hong Kong profits tax has been provided at the rate of 8.25% (2019: 8.25%) on estimated assessable profits of first HK$2 million arising in Hong Kong during the year. The remainder of the assessable profits will continue to be taxed at 16.5% (2019:16.5%).

	2020 US$	2019 US$
Current tax – Hong Kong Profits Tax		
Provision for the year	550,000	520,378
Under-provision/(over-provision) in prior year	620	(23,638)
Deferred tax charge/(credit) (note 12)	12,919	(30,147)
Total tax charge for the year	563,359	466,593

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as below:

	2020 US$	2019 US$
Profit before tax	3,567,335	3,098,794
Tax at the statutory income tax rate of 16.5% (2019: 16.5%)	588,610	511,301
Under-provision/(over-provision) in prior year	620	(23,638)
Income not taxable for tax	(3,028)	-
Expenses not deductible for tax	162	57
Tax effect of first HK$2,000,000 assessable profits taxed at 8.25%	(21,268)	(21,186)
Others	(1,557)	59
Tax expense at the Company's effective rate of 15.8% (2019: 15.1%)	563,539	466,593

11. OTHER COMPREHENSIVE INCOME

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

	2020			2019		
	Before-tax amount US$	Tax effect US$	Net-of-tax amount US$	Before-tax amount US$	Tax effect US$	Net-of-tax amount US$
Debt investment securities measured at fair value through other comprehensive income: net movement in fair value reserve (recycling)	253,316	(40,213)	213,103	3,103,934	(512,736)	2,591,198

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

	2020 US$	2019 US$
Changes in fair value recognised during the year	897,978	3,580,493
Recognition of credit loss allowances of financial assets at fair value through other comprehensive income	9,601	(3,560)
Income tax effect	(40,213)	(512,736)
Reclassification adjustments for gains and losses included in profit or loss		
- gains on disposal	(673,921)	(492,604)
- amortisation of previous revaluation losses on fair value through other comprehensive income reclassified as amortised cost, net of deferred tax	19,658	19,605
Net movement in the fair value reserve during the year recognised in other comprehensive income	213,103	2,591,198

12. DEFERRED TAX ASSETS

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

	Accelerated tax depreciation US$	Impairment allowances US$	Fair value adjustments for financial assets at fair value through other comprehensive income US$	Total US$
At 1 January 2019	14,078	121,034	414,223	549,335
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	(2,084)	32,231	-	30,147
Deferred tax recognised in other comprehensive income during the year	-	-	(512,736)	(512,736)
At 31 December 2019 and 1 January 2020	11,994	153,265	(98,513)	66,746
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(1,205)	(11,714)	-	(12,919)
Deferred tax recognised in other comprehensive income during the year	-	-	(40,213)	(40,213)
At 31 December 2020	10,789	141,551	(138,726)	13,614

13. PROPERTY AND EQUIPMENT AND LEASES

	Leasehold improvements US$	Computer equipment US$	Furniture and fixtures US$	Motor vehicle US$	Premises, properties and vehicles leased for own use (note (a)) US$	Total US$
2020						
Cost:						
At 1 January 2020	157,732	394,646	39,502	-	1,703,295	2,295,175
Additions	44,901	18,356	930	-	222,260	286,447
At 31 December 2020	202,633	413,002	40,432	-	1,925,555	2,581,622
Accumulated depreciation:						
At 1 January 2020	157,732	359,621	29,569	-	697,085	1,244,007
Charge for the year	1,247	17,210	2,567	-	682,961	703,985
At 31 December 2020	158,979	376,831	32,136	-	1,380,046	1,947,992
Net carrying amount:						
At 31 December 2020	43,654	36,171	8,296	-	545,509	633,630
2019						
Cost:						
At 1 January 2019	157,732	385,333	33,295	66,368	1,212,427	1,855,155
Additions	-	10,795	9,933	-	558,731	579,459
Disposal	-	(1,482)	(3,726)	(66,368)	(67,863)	(139,439)
At 31 December 2019	157,732	394,646	39,502	-	1,703,295	2,295,175
Accumulated depreciation:						
At 1 January 2019	157,732	349,339	33,103	66,368	105,417	711,959
Charge for the year	-	11,764	192	-	659,531	671,487
Written off on disposal	-	(1,482)	(3,726)	(66,368)	(67,863)	(139,439)
At 31 December 2019	157,732	359,621	29,569	-	697,085	1,244,007
Net carrying amount:						
At 31 December 2019	-	35,025	9,933	-	1,006,210	1,051,168

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

13. PROPERTY AND EQUIPMENT AND LEASES (continued)

Movements of carrying amounts of lease liabilities

	2020 US$	2019 US$
At 1 January	1,023,837	-
Recognition upon initial application of HKFRS 16	-	1,108,413
Additions	222,260	566,398
Accretion of interest	23,014	31,068
Payments	(707,142)	(682,042)
At 31 December	561,969	1,023,837
Current	474,596	546,268
Non-current	87,373	477,569

The weighted average incremental borrowing rate applied to the lease liabilities recognised at 31 December 2020 was 2.49% (2019: 2.54%).

Amounts recognised in the statement of profit or loss

	2020 US$	2019 US$
Depreciation expense of right-of-use assets	682,961	659,531
Interest expense on lease liabilities	23,014	31,068
Total	705,975	690,599

14. LOANS AND ADVANCES

(a) Loans and advances less impairment

	2020 US$	2019 US$
Gross loans and advances to banks and other financial institutions	33,298,479	35,198,503
Less: Impairment allowances		
- Stage 1	(25,206)	(33,762)
- Stage 2	-	-
- Stage 3	-	-
	33,273,273	35,164,741
Gross loans and advances to customers	255,990,310	235,448,604
Less: Impairment allowances		
- Stage 1	(743,570)	(824,217)
- Stage 2	-	-
- Stage 3	-	-
	255,246,740	234,624,387
Net loans and advances to		
- banks and other financial institutions	33,273,273	35,164,741
- customers	255,246,740	234,624,387
	288,520,013	269,789,128

An analysis of changes in the gross amount of loans and advances is as follow:

As at 31 December 2020

	12-month ECLs	Lifetime ECLs		
	Stage 1 US$	Stage 2 US$	Stage 3 US$	US$
Gross loans and advances to customers as at 1 January	270,647,107	-	-	270,647,107
New financial assets originated	115,082,142	-	-	115,082,142
Financial assets that have been repaid	(96,440,460)	-	-	(96,440,460)
Gross loans and advances to customers as at 31 December	289,288,789	-	-	289,288,789

14. LOANS AND ADVANCES (continued)

(a) Loans and advances less impairment (continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	
	US$	US$	US$	US$
Gross loans and advances to customers as at 1 January	261,877,643	-	-	261,877,643
New financial assets originated	84,751,481	-	-	84,751,481
Financial assets that have been repaid	(75,982,107)	-	-	(75,982,107)
Gross loans and advances to customers as at 31 December	270,647,107	-	-	270,647,107

(b) Movement in impairment allowances

As at 31 December 2020

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	
	US$	US$	US$	US$
Balance as at 1 January	857,979	-	-	857,979
Impairment allowance, net	(89,203)	-	-	(89,203)
Balance as at 31 December	768,776	-	-	768,776

As at 31 December 2019

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	
	US$	US$	US$	US$
Balance as at 1 January	660,867	-	-	660,867
Impairment allowance, net	197,312	-	-	197,312
Balance as at 31 December	857,979	-	-	857,979

Provision for expected credit losses is assessed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2020, the probability of default applied ranged from 0.03% to 4.05% (2019: 0.03% to 4.05%) and the loss given default was estimated to be ranged from 14.71% to 73.13% (2019:10.54% to 72.28%).

15. INVESTMENT SECURITIES

	2020 US$	2019 US$
(a) Debt securities measured at fair value through other comprehensive income:		
- Debt securities, listed in Hong Kong	41,987,608	35,480,712
- Debt securities, listed outside Hong Kong	148,741,791	112,360,974
	190,729,399	147,841,686
Issued by:		
Banks and other financial institutions	141,270,779	103,371,452
Corporate entities	49,458,620	44,470,234
	190,729,399	147,841,686
(b) Debt securities measured at amortised cost:		
- Debt securities, listed outside Hong Kong	4,863,090	4,839,011
Less: Impairment allowances	(1,775)	(1,997)
	4,861,315	4,837,014
Issued by:		
Banks and other financial institutions	4,863,090	4,839,011
Debt securities measured at		
- fair value through other comprehensive income	190,729,399	147,841,686
- amortised cost	4,861,315	4,837,014
Total debt securities	195,590,714	152,678,700

15. INVESTMENT SECURITIES (continued)

Movement in impairment allowances

Debt securities measured at fair value through other comprehensive income

As at 31 December 2020

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	
	US$	US$	US$	US$
Balance as at 1 January	62,465	-	-	62,465
Impairment allowance, net	9,601	-	-	9,601
Balance as at 31 December	72,066	-	-	72,066

As at 31 December 2019

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	
	US$	US$	US$	US$
Balance as at 1 January	66,025	-	-	68,244
Impairment allowance, net	(3,560)	-	-	(3,560)
Balance as at 31 December	62,465	-	-	62,465

Debt securities measured at amortised cost

As at 31 December 2020

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	
	US$	US$	US$	US$
Balance as at 1 January	1,997	-	-	1,997
Impairment allowance, net	(222)	-	-	(222)
Balance as at 31 December	1,775	-	-	1,775

15. INVESTMENT SECURITIES (continued)

Movement in impairment allowances (continued)

Debt securities measured at amortised cost (continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs		
	Stage 1 US$	Stage 2 US$	Stage 3 US$	US$
Balance as at 1 January	2,219	-	-	2,219
Impairment allowance, net	(222)	-	-	(222)
Balance as at 31 December	1,997	-	-	1,997

Provision for expected credit losses is assessed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2020, the probability of default applied ranged from 0.04% to 0.99% (2019: 0.04% to 0.25%) and the loss given default was estimated to be 45% (2019: 45%).

16. OTHER ASSETS

	2020 US$	2019 US$
Accrued interest receivable	1,263,462	1,801,323
Other	1,809,952	417,715
	3,073,414	2,219,038

17. OTHER LIABILITIES

	2020 US$	2019 US$
Accrued interest payable	424,105	979,878
Other	220,498	239,710
	644,603	1,219,588

18. BORROWINGS FROM THE ULTIMATE HOLDING COMPANY

	2020 US$	2019 US$
Borrowings from the ultimate holding company		
- short-term borrowings	90,000,000	17,031,194
- long-term borrowings	-	104,000,000
	90,000,000	121,031,194

At 31 December 2020, the short-term borrowings from the ultimate holding company bear interest at 3-month LIBOR plus a spread of 0.614% to 0.702% and are repayable on 23 April 2021. (2019: the short-term borrowings from the ultimate holding company bear interest at 3-month LIBOR plus a spread of 0.106% to 0.500% and are repayable on 6 April 2020).

At 31 December 2020, there was no outstanding long-term borrowings from the ultimate holding company (2019: the long-term borrowings from the ultimate holding company bear interest at 3-month LIBOR plus a spread of 0.35% and are repayable on 23 April 2020).

19. BORROWINGS FROM OTHER FINANCIAL INSTITUTIONS

	2020 US$	2019 US$
Borrowings from other financial institutions - short-term borrowings	-	30,000,000

At 31 December 2019, the short-term borrowing from other financial institutions represented a USD30 million borrowing, bearing interest at LIBOR plus a spread of 0.4%, repayable on 21 August 2020. Such borrowing was repaid during the year.

20. SUBORDINATED LIABILITIES

	2020 US$	2019 US$
Borrowings from the ultimate holding company - Subordinated floating rate at 3-month LIBOR plus 1.6% thereafter until 27 September 2028 (2019: 3-month LIBOR plus 1.6%)	14,987,070	14,982,056

Subject to the approval of the HKMA, the Company may elect to repay all or some of the liabilities after 27 September 2023, by giving not less than 30 days prior notice to the ultimate holding company.

21. SHARE CAPITAL

	2020 US$	2019 US$
Issued and fully paid: 130,000,000 (2019: 30,000,000) ordinary shares	130,000,000	30,000,000

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

	Number of shares in issue	Share capital
At 1 January 2019, 31 December 2019 and 1 January 2020	30,000,000	30,000,000
New issue (note (a))	100,000,000	100,000,000
At 31 December 2020	130,000,000	130,000,000

Note:

(a) On 27 August 2020, 100,000,000 ordinary shares were issued and fully paid at US$1 per share for cash to the existing shareholder of the Company, which resulted in proceeds of US$100,000,000.

22. RESERVES

	Retained profits (note (ii)) US$	Fair value reserve (note (i)) US$	Total US$
At 1 January 2020	31,883,955	561,010	32,444,965
Dividends approved in respect of the previous year	(131,610)	-	(131,610)
Amounts transferred from fair value reserve	(111,774)	111,774	-
- profit for the year	3,003,796	-	3,003,796
- change in fair value and impairment loss, net of deferred tax	-	867,366	867,366
Reclassication adjustments for gains and losses included in profit or loss:			
- gains on disposal	-	(673,921)	(673,921)
- amortisation of previous revaluation losses on investments measured at fair value through other comprehensive income reclassified as investments measured at amortised cost, net of deferred tax	-	19,658	19,658
At 31 December 2020	34,644,367	885,887	35,530,254
At 1 January 2019	29,365,301	(2,030,188)	27,335,113
Dividends approved in respect of the previous year	(113,547)	-	(113,547)
- profit for the year	2,632,201	-	2,632,201
- change in fair value and impairment loss, net of deferred tax	-	3,064,197	3,064,197
Reclassication adjustments for gains and losses included in profit or loss:			
- gains on disposal	-	(492,604)	(492,604)
- amortisation of previous revaluation losses on investments measured at fair value through other comprehensive income reclassified as investments measured at amortised cost, net of deferred tax	-	19,605	19,605
At 31 December 2019	31,883,955	561,010	32,444,965

Nature and purpose of reserves

(i) Fair value reserve
This reserve comprises the cumulative net change in the fair value of debt securities measured at fair value through other comprehensive income, including the impairment allowances, until the securities are derecognised.

22. RESERVES (continued)

(ii) Regulatory reserve
As at 31 December 2020, the Company has earmarked US$$1,145,072 (2019: US$1,850,585) as regulatory reserve from retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained profits and in consultation with the HKMA.

23. DIVDENDS

	2020 US$	2019 US$
Final dividend in respect of the current financial year proposed after the end of the reporting period of US$0.0023 per ordinary share (2019: US$0.0044 per ordinary share)	150,190	131,610

The dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

Final dividend in respect of the previous financial year, approved and paid during the year, of US$0.0044 per ordinary share (2019: US$0.0038 per ordinary share)	131,610	113,547

24. ASSETS PLEDGED AS SECURITY

The following assets have been pledged as collateral for own liabilities:

	2020 US$	2019 US$
Secured liabilities (included in deposits and balances from from banks and other financial institutions and accrued interest payable)	48,830,414	26,423,359
Assets pledged:		
- Investment securities	52,048,048	27,960,293

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

25. OFF-BALANCE SHEET EXPOSURES

Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2020 US$	2019 US$
Loan commitments		
- with an orginal maturiry of under one year	4,301,000	1,250,000
- with an orginal maturiry of one year and over	5,000,000	7,500,000
	9,301,000	8,750,000
Credit risk weighted amount	3,360,200	3,250,000

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

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% for contingent liabilities and commitments.

During the years ended 31 December 2020 and 2019, the movements in the impairment allowance for loan commitments are as follows:.

	2020 US$	2019 US$
Balance as at 1 January	6,445	4,635
Impairment allowance, net	8,830	1,810
Balance as at 31 December	15,275	6,445

Provision for expected credit losses is assessed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2020, the probability of default applied ranged from 0.09% to 0.80% (2019: 0.09% to 0.43%) and the loss given default was estimated to be 71.76% (2019: 71.46%).

26. NOTES TO THE STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

2020

	Borrowings US$	Accrued interest payables (included in other liabilities) US$	Lease liabilities US$
At 1 January 2020	151,031,194	538,956	1,023,837
Changes from financing cash flows			
New borrowings	455,825,087	-	-
Repayment	(516,856,281)	-	-
Interest paid	-	(1,979,594)	-
Interest element of lease rentals paid	-	-	(23,014)
Captial element of lease rental paid	-	-	(684,128)
Other changes			
New leases	-	-	222,260
Finance costs on lease liabilities	-	-	23,014
Interest expenses	-	1,786,070	-
At 31 December 2020	90,000,000	345,432	561,969

2019

	Borrowings US$	Accrued interest payables (included in other liabilities) US$	Lease liabilities US$
At 1 January 2019	163,151,936	538,956	1,108,413
Changes from financing cash flows			
New borrowings	321,927,573	-	-
Repayment	(334,048,315)	-	-
Interest paid	-	(5,000,128)	-
Interest element of lease rentals paid	-	-	(31,068)
Captial element of lease rental paid	-	-	(650,974)
Other changes			
New leases	-	-	566,398
Finance costs on lease liabilities	-	-	31,068
Interest expenses	-	5,000,128	-
At 31 December 2019	151,031,194	538,956	1,023,837

26. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 US$	2019 US$
With financing cash flows	707,142	682,042

27. MATERIAL RELATED PARTY TRANSACTIONS

The Company entered into the following material related party transactions:

Transactions with group companies

During the year, the Company entered into transactions with related parties in the ordinary course of its business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The Company has internal policies to control connected lending.

The amount of related-party transactions during the year and outstanding balances at the end of the reporting period are set out below:

	Ultimate holding company		*Fellow subsidiaries*	
	2020 US$	2019 US$	2020 US$	2019 US$
Interest income	4,389	-	-	-
Interest expense	(1,510,902)	(4,102,401)	-	-
Operating expenses	-	-	(7,631)	(1,723)

	Ultimate holding company		*Fellow subsidiaries*	
	2020 US$	2019 US$	2020 US$	2019 US$
Placement of deposits				
At 1 January	-	-	-	-
Placement during the year	10,000,000	-	-	-
Repayment during the year	(10,000,000)	-	-	-
At 31 December	-	-	-	-
Acceptance of deposits				
At 1 January	-	-	-	-
Acceptance during the year	32,000,000	86,000,000	-	-
Repayment during the year	(23,000,000)	(86,000,000)	-	-
At 31 December	9,000,000	-	-	-

27. MATERIAL RELATED PARTY TRANSACTIONS (continued)

Transactions with group companies (continued)

	Ultimate holding company	
	2020	2019
	US$	US$
Borrowings		
At 1 January	121,031,194	113,210,011
Additional loans during the year	243,875,801	321,852,813
Repayments during the year	(274,906,995)	(314,031,630)
At 31 December	90,000,000	121,031,194

	Ultimate holding company	
	2020	2019
	US$	US$
Subordinated liabilities		
At 31 December	14,987,070	14,982,056

During the year, The Export-Import Bank of Korea acted as a guarantor for the particular loan facilities of US$3,000,000 (2019: US$6,000,000). As at 31 December 2020, the Company did not make any drawdown from that particular loan facilities (2019: US$3,010,680).

Remuneration for key management personnel (note 8)

	2020	2019
	US$	US$
Short-term employee benefits	341,819	406,344

Loans to directors and bodies corporate controlled by them

There were no loans to directors of the Company, including loans to bodies controlled by them, 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.

28. FINANCIAL RISK MANAGEMENT

Categories of financial instruments

	2020 US$	2019 US$
Financial assets measured at amortised cost		
Cash and balances with banks and other financial institutions	12,003,403	5,770,310
Loans and advances to banks and other financial institutions	33,273,273	35,164,741
Loans and advances to customers	255,246,740	234,624,387
Debt securities measured at amortised cost	4,861,315	4,837,014
Financial assets included in other assets	2,565,931	1,968,559
	307,950,662	282,365,011
Financial assets measured at other comprehensive income		
Debt securities measured at other comprehensive income	190,729,399	147,841,686
	498,680,061	430,206,697
Financial liabilities measured at amortised cost		
Deposits and balances from banks and other financial institutions	219,086,669	200,309,409
Deposits and balances from the ultimate holding company	9,000,000	-
Financial liabilities included in other liabilities	513,771	1,563,298
Borrowings from other financial institutions	-	30,000,000
Borrowings from the ultimate holding company	90,000,000	121,031,194
Subordinated liabilities	14,987,070	14,982,056
Lease liabilities	561,969	1,023,837
	334,149,479	368,909,794

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

- Credit risk: risk of loss resulting from the decline in credit quality (or downgrade risk) or failure of a borrower, counterparty, third party or issuer to honor its financial or contractual obligations.

- Market risk: Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Comprises currency risk, interest rate risk and other price risk.

- Liquidity and funding risk: Risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.

- Operational risk: Risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

28. FINANCIAL RISK MANAGEMENT (continued)

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks and the Company's management of capital.

(a) Credit risk management

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

Corporate credit risk

The corporate lending is generally concentrated among highly rated customers. In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Company has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. The Company also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

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

Credit risk for treasury transactions

The credit risk of the Company's treasury transactions is managed in the same way as the Company manages its corporate lending risk. The Company applies a risk grading to its counterparties and sets individual counterparty limits.

Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The Company does not provide any other guarantees which would expose the Company to credit risk.

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

Concentration of credit risk

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

(i) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure before any impairment allowance is as follows:

	2020 US$	2019 US$
Cash and balances with banks and other financial institutions	12,003,403	5,770,310
Loans and advances to banks and other financial institutions	33,298,479	35,198,503
Loans and advances to customers	255,990,310	235,448,604
Investment securities	195,592,489	152,680,697
Loan commitments and other credit related commitments	9,301,000	8,750,000
	506,185,681	437,848,114

The above financial assets are classified as Stage 1 for measurement of ECLs at 31 December 2020 and 2019.

Impacts from COVID-19

Global economy has been worsened since the outbreak of COVID-19 starting early January 2020. The Company has been continuously monitoring the impact of its developments and has been managing the credit risks arisen as a result of the deteriorating economy due to the global pandemic. With the expectations that the COVID-19 pandemic is likely to persist, at least, for the 1st half of 2021, the economic condition is still subject to high uncertainty in the future depending on the pace of the recovery from the pandemic. The criteria for significant increase in credit risk assessments and the economic scenarios have been regularly updated with considerations of the negative impacts on the credit risk of the customers and the likelihood of further economic downturn. The Company will be continuously monitoring and managing the economic impact of the COVID-19 and the credit risk arisen.

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

(ii) Credit quality of loans and advances

Loans and advances to banks and other financial institutions are only to banks and other financial institutions with good credit standing. At 31 December 2020 and 2019, no loans and advances to banks and other financial institutions are impaired.

The following table sets out information about the credit quality of loans and advances. The amounts in the table represent net carrying amount.

Loans and advances to banks and other financial institutions at amortised cost

	2020				2019
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$	Total US$
Pass	33,298,479	-	-	33,298,479	35,198,503
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Impairment allowance	(25,206)	-	-	(25,206)	(33,762)
Carrying amount	33,273,273	-	-	33,273,273	35,164,741

Loans and advances to customers at amortised cost

	2020				2019
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$	Total US$
Pass	255,990,310	-	-	255,990,310	235,448,604
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Impairment allowance	(743,570)	-	-	(743,570)	(824,217)
Carrying amount	255,246,740	-	-	255,246,740	234,624,387

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

As at 31 December 2020, there were no overdue or impaired loans and advances (2019: Nil).

28. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

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

Credit risk of treasury transactions is managed in the same way as the Company manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the end of the reporting period, the credit quality of investments in debt securities analysed by designation of external credit assessment institutions is as follows.

Debt investments at amortised cost

	2020				2019
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$	Total US$
AA+ to AA-	4,863,090	-	-	4,863,090	4,839,011
A+ to A-	-	-	-	-	-
BBB+ to BBB-	-	-	-	-	-
Unrated	-	-	-	-	-
Impairment allowance	(1,775)	-	-	(1,775)	(1,997)
Carrying amount	4,861,315	-	-	4,861,315	4,837,014

Debt investments at fair value through other comprehensive income

	2020				2019
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$	Total US$
AA+ to AA-	34,306,040	-	-	34,306,040	30,250,340
A+ to A-	98,208,839	-	-	98,208,839	68,612,622
BBB+ to BBB-	58,214,520	-	-	58,214,520	48,978,724
Unrated	-	-	-	-	-
Carrying amount	190,729,399	-	-	190,729,399	147,841,686

As at 31 December 2020, there were no overdue or impaired debt investments (2019: Nil).

(b) Market risk management

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

The Risk Management Committee monitors market risk. The board articulates the interest rate view of the Company and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

Derivative instruments are also used to manage the Company's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Company are interest rate and foreign exchange contracts, which are primarily over-the-counter derivatives.

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(i) Foreign currency risk

The Company is exposed to currency risks primarily arising from foreign exchange dealing and financial instruments that are not denominated in United States dollars ("USD"). The major currencies giving rise to this risk are primary Euros ("EUR"), Hong Kong dollars ("HKD") and Renminbi ("RMB"). To manage this risk, the Company ensures that the net exposure of financial instruments denominated in other currencies is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Also, the Company uses foreign exchange contracts to hedge its currency risk and classifies these as fair value hedges. All foreign currency positions are managed by the Managing Director within limits approved by the board.

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

The Company's interest rate positions arise from treasury and lending activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts. Interest rate risk is managed by the Credit Committee, Risk Management Committee and Managing Director. The Company also uses interest rate swaps to manage interest rate risk.

The following table indicates the effective interest rates for the relevant periods and the expected next dates (or maturity dates whichever are earlier) for interest-bearing assets and liabilities at the balance sheet date.

At 31 December 2020

	Effective Interest rate	Total US$	3 months or less US$	Over 3 months to 1 year US$	Over 1 year to 5 years US$	Over 5 years US$	Non-interest bearing US$
Financial assets							
Cash and balances with banks and other financial institutions	-	12,003,403	-	-	-	-	12,003,403
Loans and advances to banks and other financial institutions	1.56%	33,273,273	23,459,696	-	9,813,577	-	-
Loans and advances to customers	1.95%	255,246,740	232,912,608	17,361,693	4,972,439	-	-
Investment securities	1.32%	195,590,714	132,185,139	7,040,980	48,446,040	7,918,555	-
Financial assets included in other assets		2,565,931	-	-	-	-	2,565,931
Total financial assets		498,680,061	388,557,443	24,402,673	63,232,056	7,918,555	14,569,334
Financial liabilities							
Deposits and balances from banks and other financial institutions	0.53%	219,086,669	149,086,669	70,000,000	-	-	-
Deposits and balances from the ultimate holding company	0.58%	9,000,000	9,000,000	-	-	-	-
Financial liabilities included in other liabilities	-	513,771	-	-	-	-	513,771
Borrowings from the ultimate holding company	0.66%	90,000,000	90,000,000	-	-	-	-
Subordinated liabilities	1.85%	14,987,070	14,987,070	-	-	-	-
Lease liabilities	2.49%	561,969	561,969	-	-	-	-
Total financial liabilities		334,149,479	263,635,708	70,000,000	-	-	513,771
Asset-liabilities gap			124,921,735	(45,597,327)	63,232,056	7,918,555	
Interest rate sensitivity gap			124,921,735	(45,597,327)	63,232,056	7,918,555	

28. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

At 31 December 2019

	Effective interest rate	Total US$	3 months or less US$	Over 3 months to 1 year US$	Over 1 year to 5 years US$	Over 5 years US$	Non-interest bearing US$
Financial assets							
Cash and balances with banks and other financial institutions	-	5,770,310	-	-	-	-	5,770,310
Loans and advances to banks and other financial institutions	2.84%	35,164,741	35,164,741	-	-	-	-
Loans and advances to customers	3.45%	234,624,387	218,923,048	15,087,950	613,389	-	-
Investment securities	2.77%	152,678,700	118,396,982	-	26,113,335	8,168,383	-
Financial assets included in other assets	-	1,968,559	-	-	-	-	1,968,559
Total financial assets		430,206,697	372,484,771	15,087,950	26,726,724	8,168,383	7,738,869
Financial liabilities							
Deposits and balances from banks and other financial institutions	2.38%	200,309,409	81,525,934	118,783,475	-	-	-
Financial liabilities included in other liabilities	-	1,563,298	-	-	-	-	1,563,298
Borrowings from other financial institutions	2.31%	30,000,000	30,000,000	-	-	-	-
Borrowings from the ultimate holding company	1.96%	121,031,194	121,031,194	-	-	-	-
Subordinated liabilities	3.55%	14,982,056	14,982,056	-	-	-	-
Lease liabilities	2.54%	1,023,837	1,023,837	-	-	-	-
Total financial liabilities		368,909,794	248,583,021	118,783,475	-	-	1,563,298
Asset-liabilities gap			123,921,750	(103,685,525)	26,726,724	8,168,383	
Interest rate sensitivity gap			123,921,750	(103,685,525)	26,726,724	8,168,383	

(iii) Sensitivity analysis

At 31 December 2020, it is estimated that a general increase/decrease of 100 (2019: 100) basis points in interest rates, with all other variables held constant, would decrease/increase the Company's profit after tax and retained profits by approximately US$2,041,730 and US$2,041,730 respectively (2019: US$1,324,999 and US$1,324,999 respectively).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 (2019: 100) basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Company at the end of the reporting period, the impact on the Company's profit after tax and retained profits is estimated as an annualised impact on interest expense or income of such a change in interest rates.

28. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management

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

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

The Company manages liquidity risk by holding sufficient liquid assets (e.g. cash and bank balances and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits. The Company regularly stress tests its liquidity position.

(i) Analysis of assets and liabilities by remaining maturity:

The following maturity profile is based on the remaining period at the end of the reporting period to the contractual maturity date.

At 31 December 2020

	Total US$	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Undated US$
Financial assets								
Cash and balances with banks and other financial institutions	12,003,403	12,003,403	-	-	-	-	-	-
Loans and advances to banks and other financial institutions	33,273,273	-	4,996,745	-	-	28,276,528	-	-
Loans and advances to customers	255,246,740	-	-	11,948,858	101,003,515	119,433,711	22,860,656	-
Investment securities	195,590,714	-	-	-	22,035,360	160,621,199	12,934,155	-
Financial assets included in other assets	2,565,931	1,023,000	640,805	563,410	62,954	275,762	-	-
Total financial assets	498,680,061	13,026,403	5,637,550	12,512,268	123,101,829	308,607,200	35,794,811	-
Financial liabilities								
Deposits and balances from banks and other financial institutions	219,086,669	-	81,184,022	67,902,647	70,000,000	-	-	-
Deposits and balances from the ultimate holding company	9,000,000	-	9,000,000	-	-	-	-	-
Financial liabilities included in other liabilites	513,771	-	179,032	207,023	88,269	39,447	-	-
Borrowings from the ultimate holding company	90,000,000	-	-	-	90,000,000	-	-	-
Subordinated liabilities	14,987,070	-	-	-	-	-	14,987,070	-
Lease liabilities	561,969	-	51,971	86,361	336,264	87,373	-	-
Total financial liabilites	334,149,479	-	90,415,025	68,196,031	160,424,533	126,820	14,987,070	-
Total liquidity gap		13,026,403	(84,777,475)	(55,683,763)	(37,322,704)	308,480,380	20,807,741	

28. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

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

At 31 December 2019

	Total US$	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Undated US$
Financial assets								
Cash and balances with banks and other financial institutions	5,770,310	5,770,310	-	-	-	-	-	-
Loans and advances to banks and other financial institutions	35,164,741	-	-	2,998,047	8,704,958	23,461,736	-	-
Loans and advances to customers	234,624,387	9,048,275	-	13,436,262	100,401,148	97,674,453	14,064,249	-
Investment securities	152,678,700	-	-	3,500,420	3,010,680	127,905,617	18,261,983	-
Financial assets included in other assets	1,968,559	-	831,974	878,428	97,597	160,560	-	-
Total financial assets	430,206,697	14,818,585	831,974	20,813,157	112,214,383	249,202,366	32,326,232	-
Financial liabilities								
Deposits and balances from banks and other financial institutions	200,309,409	-	71,000,000	10,525,934	118,783,475	-	-	-
Financial liabilities included in other liabilites	1,563,298	-	392,387	370,740	800,171	-	-	-
Borrowings from other financial institutions	30,000,000	-	-	-	30,000,000	-	-	-
Borrowings from the ultimate holding company	121,031,194	-	-	-	17,031,194	104,000,000	-	-
Subordinated liabilities	14,982,056	-	-	-	-	-	14,982,056	-
Lease liabilities	1,023,837	-	56,753	88,159	401,356	477,569	-	-
Total financial liabilites	368,909,794	-	71,449,140	10,984,833	167,016,196	104,477,569	14,982,056	-
Total liquidity gap		14,818,585	(70,617,166)	9,828,324	(54,801,813)	144,724,797	17,344,176	

28. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

(ii) Analysis of liabilities by remaining maturity

The following maturity profile is based on gross undiscounted cash flows for the remaining period at the end of reporting period to the contractual maturity date.

At 31 December 2020

	Gross nominal outflow US$	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Indefinite US$
Deposits and balances from the ultimate holding company	9,026,680	-	9,026,680	-	-	-	-	-
Deposits and balances from banks and other financial institutions	219,515,847	-	81,225,827	68,137,607	70,152,413	-	-	-
Financial liabilities included in other liabilites	513,771	-	179,032	207,023	88,269	39,447	-	-
Borrowings from the ultimate holding company	90,301,787	-	150,894	-	90,150,893	-	-	-
Subordinated liabilities	17,162,766	-	-	70,184	210,551	1,110,010	15,772,021	-
Lease liabilities	582,074	-	58,426	93,673	341,167	88,808	-	-
	339,015,043	-	90,640,859	68,508,487	160,943,293	1,238,265	15,772,021	-
Unrecognised loan commitments	9,301,000	-	-	-	4,301,000	5,000,000	-	-

At 31 December 2019

	Gross nominal outflow US$	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Indefinite US$
Deposits and balances from banks and other financial institutions	201,762,664	-	71,178,570	10,657,025	119,927,069	-	-	-
Financial liabilities included in other liabilites	1,563,298	-	392,387	370,740	800,171	-	-	-
Borrowings from other financial institutions	30,350,274	-	-	175,137	30,175,137	-	-	-
Borrowings from the ultimate holding company	124,626,239	-	602,129	-	18,828,717	105,195,393	-	-
Subordinated liabilities	19,688,729	-	-	134,476	403,429	2,133,678	17,017,146	-
Lease liabilities	1,051,705	-	58,918	92,156	414,702	485,929	-	-
	379,042,909	-	72,232,004	11,429,534	170,549,225	107,815,000	17,017,146	-
Unrecognised loan commitments	8,750,000	-	2,500,000	-	1,250,000	5,000,000	-	-

28. FINANCIAL RISK MANAGEMENT (continued)

(d) Operational risk management

Operational risk is the risk arising from failures in internal processes and supporting systems or from external events.

The Company has policies for each major area of operations, which are drawn up by experienced executives after taking into account the important factors affecting such transactions. Based on the policies, limits for overall and individual market risks are approved by the management.

Strict control is exercised to ensure due adherence to policies and limits. For this purpose, an internal audit system is in place to ensure that the directives of all authorities are implemented.

The Company attaches great importance to conducting its business in a safe and sound manner such that strict control is exercised at every level. Senior executives have been entrusted with the responsibility for particular areas of operations. They are well supported by experienced middle management and frontline staff. This system operates through the Company. The Managing Director is deeply involved in the affairs of the Company and is the final authority for all the major lending and administrative decisions.

(e) Capital management

The HKMA sets and monitors capital requirements for the Company as a whole. In implementing current capital requirements the HKMA requires the Company to maintain a prescribed ratio of total capital to total risk-weighted assets. The Company uses its internal gradings as the basis for risk weightings for credit risk. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

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

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

28. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management

The capital adequacy ratios are computed on in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007. The Company meets all of the de minimis exemption criteria for reporting market risk as set out in the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA and is not required to maintain capital against market risk. Hence, the Company is exempted from disclosing the adjusted capital adequacy ratio computed in accordance with the mentioned Guideline.

The Company has complied with all externally imposed capital requirements at each required reporting date throughout the year ended 31 December 2020 and 2019 and is well above the minimum required ratio set by the HKMA.

29. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Estimation of fair values

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2 - Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments the Company determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

29. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Estimation of fair values (continued)

The Company uses widely recognised valuation models for determining the fair value of common and relatively simple financial instruments, like interest rate swaps and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter ("OTC") derivatives like interest rate swaps and currency swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

(b) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2020 and 31 December 2019. Further disclosed below are the fair value of investment securities measured at amortised cost:

	2020		2019	
	Carrying amount US$	Fair value US$	Carrying amount US$	Fair value US$
Investment securities measured at amortised cost	4,863,090	4,861,315	4,839,011	4,837,014

29. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

The table below presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement.* The level into which a fair value measurement is classifies is determined with reference to the observability and significance of the input used in the valuation technique as stated in note 30(a) to the financial statements.

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
2020				
Assets				
Financial assets measured at fair value through other comprehensive income				
- Debt securities	-	190,729,399	-	190,729,399

	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
2019				
Assets				
Financial assets measured at fair value through other comprehensive income				
- Debt securities	-	147,841,686	-	147,841,686

During the year, there were no significant transfers of financial instruments between Level 1 and Level 2 (2019: transfer from Level 1 to Level 2 of US$65,051,094). There were no transfers into or out of Level 3 (2019: Nil) during the year.

The Company's policy is to recognise transfers between levels of fair value hierarchy as at the end of the year in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted debt securities are determined by quoted prices from brokers for identical assets.

30. COMPARATIVE AMOUNTS

The presentation and disclosures of certain items in the financial statements have been revised to comply with current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

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

(a) Capital and capital adequacy

The Banking (Capital) (Amendment) Rules 2012 and 2013, effective on 1 January 2013 and 30 June 2013 respectively, signify the Basel III requirements in Hong Kong.

	2020	2019
Capital ratio:		
Common Equity Tier 1 ("CET1") capital ratio	36.66%	16.01%
Tier 1 Capital Ratio	36.66%	16.01%
Total Capital Ratio	40.45%	20.72%

The components of total capital before and after deductions are shown below:

	2020 US$	2019 US$
CET1 Capital:		
CET1 Capital instruments	130,000,000	30,000,000
Retained earnings	34,644,367	31,883,955
Disclosed reserves	952,546	597,057
CET1 Capital before deductions	165,596,913	62,481,012
Regulatory deductions to CET1 capital:		
Regulatory reserve for general banking risks	(1,145,072)	(1,850,585)
Net deferred tax assets	(152,341)	(165,260)
Total CET1 Capital	164,299,500	60,465,167
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 ("T1") Capital	164,299,500	60,465,167
Tier 2 ("T2") Capital		
Qualifying Tier 2 capital instruments plus any related share premium	15,000,000	15,000,000
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,002,965	2,779,472
Total T2 Capital	17,002,965	17,779,472
Total Tier 1 ("T1") Capital	181,302,465	78,244,639

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules (the "Capital Rules"). In accordance with the Capital Rules, the Company has adopted the "Basic Approach" for the calculation of the risk-weighted assets for credit risk, and the "Basic Indicator Approach" for the calculation of operational risk. The Company has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

CET1 capital instruments represents US$130,000,000 (2019: US$30,000,000) issued and fully paid ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(a) Capital and capital adequacy (continued)

Expected credit loss is maintained to cover potential impairment losses for a group of financial assets with similar credit risk characteristics where the Company determines that no objective evidence of impairment exists for an individually assessed financial asset.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's regulatory capital disclosures will be published by using the standard disclosure templates, as specified by the HKMA under the "Regulatory Disclosures - December 2020" link on the home page of the Company's website at
https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=362&menuid=01600100
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(b) Countercyclical capital buffer ratio

	2020	2019
Countercyclical Capital Buffer Ratio	0.086%	0.123%

The relevant disclosures pursuant to section 16FG of the Banking (Disclosure) Rules for this period can be found on our website accessible through the "Regulatory Disclosures - December 2020" link on the home page of the Company's website at https://www.koreaexim.go.kr/
site/program/board/basicboard/list?boardtypeid=362&menuid=016001005

(c) Liquidity maintenance ratio ("LMR")

	2020	2019
Average LMR for the year	161.89%	145.72%

LMR was compiled in accordance with the Banking (Liquidity) Rules issued by the HKMA with effect from 1 January 2015 for the implementation of the Basel III capital framework.

The average LMR is computed as the arithmetic mean of the average value of the LMR for each calendar month as reported in the liquidity position return submitted for the year.

(i) Approach to liquidity risk management

The Company's approach to liquidity risk management is based on the building blocks of governance by framework, oversight by risk management committees, and internal control policies that define specific risk methodologies. Processes and systems are in place to measure, limit and control exposures based on the risk methodologies defined.

(d) Leverage ratio

	2020	2019
Leverage ratio	32.32%	13.81%

The leverage ratio was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's leverage position disclosures will be published by using the standard disclosure templates, as specified by the HKMA under the "Regulatory Disclosures - December 2020" section on Parent Bank's website https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=362&menuid=016001005.

(e) Segmental information by class of business

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

The Company's activities comprise two classes of business: securities and commercial banking. The securities business includes investment holding and commercial banking activities include trade finance and the advance of loans.

Operating income before operating expenses and impairment losses:

	2020 US$	2019 US$
Securities business	1,568,530	1,551,874
Commercial banking	4,543,308	4,270,125
	6,111,838	5,821,999

Operating assets:

	2020	2019
Securities business	196,042,228	153,332,288
Commercial banking	289,331,961	270,936,863
	14,460,599	7,305,939
	499,834,788	431,575,090

Unallocated assets include cash at bank, property and equipment and other assets.

(e) Segmental information by class of business (continued)

Loans and advances to customers

(i) By industry sectors

Loans and advances to customers analysed by the coverage of collateral and the impairment allowance is as follows:

2020	Gross loans and advances US$	% of gross loans and advances covered by collateral US$	General provisions US$	Specific provisions US$
Loans and advances for use in Hong Kong				
Industrial, commercial and financial:				
- Recreational activities	-	-	-	-
- Wholesale and retail trade	-	-	-	-
Loans and advances for use in Hong Kong	-	-	-	-
Loans and advances for use outside Hong Kong	255,990,310	-	743,570	-
Gross loans and advances to customers	255,990,310	-	743,570	-

2019	Gross loans and advances US$	% of gross loans and advances covered by collateral US$	General provisions US$	Specific provisions US$
Loans and advances for use in Hong Kong				
Industrial, commercial and financial:				
- Recreational activities	2,500,000	-	24,481	-
- Wholesale and retail trade	-	-	-	-
Loans and advances for use in Hong Kong	2,500,000	-	24,481	-
Loans and advances for use outside Hong Kong	232,948,604	-	799,736	-
Gross loans and advances to customers	235,448,604	-	824,217	-

(e) Segmental information by class of business (continued)

Loans and advances to customers **(continued)**

(ii) By geographical areas

	Gross loans and advances US$	General provisions US$	Specific provisions US$
2020			
Korea	231,779,977	558,407	-
Developing Asia and Pacific	13,035,594	171,881	-
Developing Latin America and Carribean	4,174,739	11,759	-
Developing Africa and Middle East	7,000,000	1,523	-
Developing Europe	-	-	-
Offshore countries	-	-	-
	255,990,310	743,570	-

	Gross loans and advances US$	General provisions US$	Specific provisions US$
2019			
Korea	202,777,806	611,645	-
Developing Asia and Pacific	26,463,965	200,445	-
Developing Latin America and Carribean	4,206,833	10,819	-
Developing Africa and Middle East	2,000,000	1,308	-
Developing Europe	-	-	-
Offshore countries	-	-	-
	235,448,604	824,217	-

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk.

(e) Segmental information by class of business (continued)

Loans and advances to banks and financial institutions

(i) By industry sectors

Loans and advances to banks and financial institutions analysed by the coverage of collateral and the impairment allowance is as follows:

	2020			2019		
	Gross loans and advances US$	% of gross loans and advances covered by collateral	General provisions US$	Gross loans and advances US$	% of gross loans and advances covered by collateral	General provisions US$
Loans and advances for use outside Hong Kong	33,298,479	0%	25,206	35,198,503	0%	33,762

(ii) By geographical areas

	Gross loans and advances US$	General provisions US$
2020		
Korea	-	-
Developing Asia and Pacific	4,995,749	6,507
Developing countries	-	-
Offshore countries	-	-
Developing Europe	-	-
Developing Africa and Middle East	24,806,626	16,423
Developing Latin America and Carribean	3,496,104	2,276
	33,298,479	25,206

(e) Segmental information by class of business (continued)

***Loans and advances to banks and financial institutions* (continued)**

(ii) By geographical areas (continued)

	Gross loans and advances US$	General provisions US$
2019		
Korea	5,000,000	3,251
Developing Asia and Pacific	4,993,494	6,520
Developing countries	-	-
Offshore countries	4,996,879	6,506
Developing Europe	-	-
Developing Africa and Middle East	16,714,948	15,201
Developing Latin America and Carribean	3,493,182	2,284
	35,198,503	33,762

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk.

(f) Overdue and rescheduled advances to customers

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end.

(g) International claims

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate international claims are shown as follows:

	Bank US$	Official sector US$	Non-bank financial institutions US$	Non-financial private sector US$	Others US$	Total US$
2020						
Developed countries	25,550,947	-	-	23,347,716	-	48,898,663
Offshore centres	-	-	-	16,333,576	-	16,333,576
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	5,193,747	-	-	4,206,365	-	9,400,112
Developing Africa and Middle East	31,310,822	-	-	13,037,153	-	44,347,975
Developing Asia-Pacific	78,315,900	-	-	304,276,754	-	382,592,654
Of which:						
- China	28,729,093	-	-	18,986,249	-	47,715,342
- South Korea	16,514,122	-	-	267,244,626	-	283,758,748
	140,371,416	-	-	361,201,564	-	501,572,980

(g) International claims (continued)

	Bank US$	Official sector US$	Non-bank financial institutions US$	Non-financial private sector US$	Others US$	Total US$
2019						
Developed countries	21,716,756	-	-	25,636,639	-	47,353,395
Offshore centres	5,000,892	-	-	16,058,587	-	21,059,479
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	3,516,224	-	-	4,257,850	-	7,774,074
Developing Africa and Middle East	22,768,265	-	-	3,025,715	-	25,793,980
Developing Asia-Pacific	63,443,227	-	-	267,698,871		331,142,098
Of which:						
- China	27,524,212	-	-	22,744,530	-	50,268,742
- South Korea	15,822,798	-	-	222,024,768	-	237,847,566
	116,445,364	-	-	316,677,662	-	433,123,026

(h) Currency risk

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

Expressed in millions of Hong Kong dollars

	United States Dollars	Euro	Renminbi	Total
2020				
Spot assets	3,827	56	-	3,883
Spot liabilities	(3,831)	(58)	-	(3,889)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net short position	(4)	(2)	-	(6)
Net structural position	1	-	-	1

Expressed in millions of Hong Kong dollars

	United States Dollars	Euro	Renminbi	Total
2019				
Spot assets	3,231	139	-	3,370
Spot liabilities	(3,240)	(132)	-	(3,272)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net short position	(9)	7	-	(2)
Net structural position	-	-	-	-

(i) Non-bank Mainland China exposure

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the "Return of Mainland Activities".

Types of counterparties	On-balance sheet exposure US$	Off-balance sheet exposure US$	Total exposure US$
2020			
1 Central government, central government-owned entities and their subsidiaries and joint ventures	-	-	-
2 Local governments, local government-owned entities and their subsidiaries and joint ventures	-	-	-
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	34,088,000	-	34,088,000
4 Other entities of central government not reported in item 1 above	-	-	-
5 Other entities of local governments not reported in item 2 above	-	-	-
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,000,000	5,000,000	10,000,000
Total	39,088,000	5,000,000	44,088,000
Total assets after provisions	500,915,000		
On-balance sheet exposures as percentage of total assets	7.8%		

Types of counterparties	On-balance sheet exposure US$	Off-balance sheet exposure US$	Total exposure US$
2019			
1 Central government, central government-owned entities and their subsidiaries and joint ventures	-	-	-
2 Local governments, local government-owned entities and their subsidiaries and joint ventures	-	-	-
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	51,607,000	-	51,607,000
4 Other entities of central government not reported in item 1 above	-	-	-
5 Other entities of local governments not reported in item 2 above	-	-	-
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,050,000	5,000,000	10,050,000
Total	56,657,000	5,000,000	61,657,000
Total assets after provisions	432,259,000		
On-balance sheet exposures as percentage of total assets	13.11%		

(j) Additional disclosures on credit risk management

(i) Capital requirements

The capital requirements on each class of exposures calculated under the Basic (Credit Risk) Approach at the end of the reporting period can be analysed as follow:

	2020 US$	2019 US$
Sovereign	63,146	160,539
Bank	4,939,840	3,370,332
Corporate	28,703,120	25,019,068
Other exposure which are not past due	137,822	155,044
Past due	-	-
Total capital requirements for on-balance sheet exposures	33,843,928	28,704,803
Other committments	744,080	700,000
Interest rate contracts	-	-
Exchange rate contracts	-	-
Default risk exposures	881,601	447,365
CVA under standardized method	-	-
Total capital requirements for off-balance sheet exposures	1,625,681	1,147,365
	35,469,609	29,852,168

The above represents the capital requirements based on 8% of risk weighted assets and does not reflect the capital actually held.

(ii) Capital charge

The capital charge for operational risk calculated in accordance with the basic indicator approach at the end of the reporting period is:

	2020 US$	2019 US$
Capital charge for operational risk	861,870	801,687

(j) Additional disclosures on credit risk management (continued)

(iii) Credit risk mitigation

Risk management policies are in place to mitigate credit risk. Maximum available limit is set on exposure on country and concentration risk.

The concentration exposure limit is the total credit limit to a specific borrower. The country limit is established to each country taking into consideration of sovereign risk and expected frequency of transactions with the Company.

Both limits shall be within the concentration limit of the parent company.

(iv) Market risk

The Company has been exempted by the HKMA under section 22(1) of Banking (Capital) Rules from the calculation of market risk under section 17 of Banking (Capital) Rules.

(k) Corporate governance

The Company is committed to high standards of corporate governance, and has fully complied throughout the year with the guideline in the Supervisory Policy Manual CG 1 "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA.

Board committees

The board of directors has established a number of committees including the Credit Committee and Risk Management Committee.

Credit Committee

The Credit Committee is responsible for assisting the Board to formulate the Company's risk appetite and strategies for managing the credit risk. It is also responsible for the implementation and maintenance of the Company's credit risk management framework. It also participates in evaluating large credit applications and making credit decisions. The Committee comprised the Deputy Managing Director and the Senior Manager.

(k) Corporate governance (continued)

Risk Management Committee

The Risk Management Committee is responsible for reviewing all risks assumed in the course of business. Its review covers, but is not limited to, the market, liquidity, credit, country, legal, reputational, strategic and operational risks as well as the limits, policies and procedures designed to mitigate these risks. It also reviews the risks outstanding and controls over, new products proposed.

The Risk Management Committee is coordinated by the Deputy Managing Director who reports to the Managing Director and to the ultimate holding company. The responsibilities of the Risk Management Committee include:

- Understand fully the nature of risks considered significant to the Company and to ensure that the necessary steps are taken to identify, measure and control these risks;
- Ensure that appropriate policies and procedures, controls, and risk monitoring systems are in place and that accountability and lines of authority are set out clearly and well communicated;
- Establish and communicate guidelines and standards for managing the Company's risks;
- Implement strategies in a manner that limits risks associated with the Company's business and ensures compliance with laws and regulations;
- Oversee the asset and liability structure of the Company and ensure that the Company has sufficient liquidity to meet its short-term funding needs; and
- Construct, implement, and oversee strategies to ensure they are consistent with the Asset/Liability Management objectives. The strategies should take into consideration the economic, competitive and regulatory conditions.

(l) Senior management compensation and benefits

The below disclosures are in compliance with the guideline in Part 3 (Disclosure on remuneration) of the HKMA Supervisory Policy Manual CG-5 "Guideline on a Sound Remuneration System".

(1) Design and implementation of the remuneration system

The Company has a small establishment in Hong Kong with around 10 staff. Since all the management are expatriates sent by the Export-Import Bank of Korea (the "Parent Bank") as a government bank in Seoul, all staff's remuneration packages follow the South Korean government guidance. All their remuneration packages are overseen by the Payroll & Welfare Team under the Human Resources Department from the Parent Bank according to its remuneration policy. At year-end, the Payroll & Welfare Team reviews the aggregate performance and the material terms of the year-end incentive awards granted to the eligible employee.

This remuneration policy at Group level has included essential elements including structure of remuneration, measurement of performance for variable remuneration and alignment payouts to the time horizon of risks.

(l) Senior management compensation and benefits (continued)

(1) Design and implementation of the remuneration system (continued)

Senior management is defined as those persons who are responsible for oversight of the Company's strategy or activities and/or those of the Company's material business lines. Key Personnel are defined as individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Company. For the year 2020, the Company does not have any staff considered as Key Personnel.

(2) Aggregate quantitative information on remuneration for senior management and Key Personnel for the year ended 31 December 2020 are as follows:

(i) Amount of remuneration for 2020 and 2019 are all fixed remuneration:

	2020		2019	
	Non-deferred US$	Number of beneficiaries	Non-deferred US$	Number of beneficiaries
The value of remuneration awards for the financial year ended				
Senior management				
Fixed remuneration:				
Cash-based	341,819	8	406,344	5

Management of the Company are not entitled to any shares or share-linked instrument as variable remuneration.

(ii) There was no deferred remuneration during 2020 (2019: Nil);

(iii) There was no deferred remuneration awarded during 2020 being paid out and reduced through performance adjustment (2019: Nil);

(iv) There was no guaranteed bonuses awarded during 2020 (2019: Nil); and

(v) No senior management or key personnel has been awarded with new sign-on or severance payment during 2020 (2019: Nil).

(m) Pillar 3 Regulatory Disclosures

The Pillar 3 regulatory disclosures for this year which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the HKMA can be found on the Company's website accessible through the "Regulatory Disclosures - December 2020" link on the home page of the Company's website at https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=362&menuid=016001005.