

Report of the Directors and Audited Financial Statements

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

31 December 2018



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

REPORTS AND AUDITED FINANCIAL STATEMENTS

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REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary, ACR Nominees Limited (collectively referred to as the "Group") for the year ended 31 December 2018.

Principal activities

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

Business review

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

Results and dividends

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 5 to 67.

Preference shares dividend of 2018: HK\$1,035,000 (2017: HK\$1,035,000) has been accrued.

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

Share capital

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

Directors

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

Lucio Chua TAN (Chairman)
KWAN Kie Yip
Regnar C. RIVERA
Lourdes A. SALAZAR
LIM Bee Lu S.
Harry Chua TAN
Michael Gonzales TAN
Lucio Jr. Khao TAN

Independent non-executive director
FOK Kam Chu John
CHONG Kim Chan Kenneth
Patrick Lim GO

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

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

Allied Banking Corporation (Hong Kong) Limited
CHAN Tak Kan
KO Wai Chun, Andy

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

REPORT OF THE DIRECTORS (continued)

Directors' interests in transactions, arrangements or contracts

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

Directors' rights to acquire shares and debentures

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

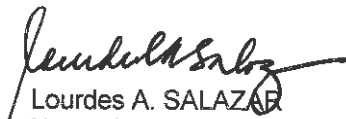
Compliance with the Banking (Disclosure) Rules

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

Auditors

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

On behalf of the Board


Lourdes A. SALAZAR
Hong Kong
26 April 2019



Ernst & Young
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Central, Hong Kong

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Independent auditor's report

To the members of Allied Banking Corporation (Hong Kong) Limited

新聯銀行(香港)有限公司

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary (the "Group") set out on pages 5 to 67, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Information other than the consolidated financial statements and auditor's report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors and unaudited supplementary financial information.

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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



Certified Public Accountants
Hong Kong
26 April 2019

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK\$	2017 HK\$
INTEREST INCOME ON			
Loans and receivables		53,412,317	53,176,994
Deposits with other banks		9,776,282	6,389,017
		<u>63,188,599</u>	<u>59,566,011</u>
INTEREST EXPENSE ON DEPOSIT LIABILITIES		<u>(5,810,203)</u>	<u>(6,347,205)</u>
NET INTEREST INCOME		<u>57,378,396</u>	<u>53,218,806</u>
OTHER OPERATING INCOME	7	<u>18,313,126</u>	<u>24,273,191</u>
OPERATING INCOME		75,691,522	77,491,997
OPERATING EXPENSES	8	<u>(35,531,918)</u>	<u>(33,334,401)</u>
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES		40,159,604	44,157,596
(CREDIT LOSS EXPENSES) / NET WRITEBACK OF IMPAIRMENT PROVISION	15	<u>(559,308)</u>	<u>132,312</u>
PROFIT BEFORE TAX		39,600,296	44,289,908
INCOME TAX	10	<u>(4,809,753)</u>	<u>(5,849,156)</u>
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>34,790,543</u>	<u>38,440,752</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS		<u>34,790,543</u>	<u>38,440,752</u>

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


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Notes	2018 HK\$	2017 HK\$
ASSETS			
Cash and cash equivalents	12	271,537,528	310,772,532
Placements with banks and other financial institutions maturing between one and twelve months	13	191,312,018	142,201,316
Derivative financial instruments	14	262,344	514,753
Advances and other accounts	16	1,185,580,011	1,124,593,100
Investment property	17	80,000,000	70,000,000
Property and equipment	19	28,208,586	29,275,691
Total assets		1,756,900,487	1,677,357,392
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances of banks and other financial institutions		27,932,108	33,283,845
Deposits from customers	22	1,205,775,870	1,156,887,973
Derivative financial instruments	14	352,155	16,586
Other accounts and payables		12,912,692	12,072,890
Current tax liabilities		1,244,565	1,778,462
Deferred tax liabilities	20	1,368,137	1,137,495
Total liabilities		1,249,585,527	1,205,177,251
EQUITY			
Share capital	23	185,700,000	185,700,000
Reserves		321,614,960	286,480,141
Total equity		507,314,960	472,180,141
Total liabilities and equity		1,756,900,487	1,677,357,392

The consolidated financial statements on pages 5 to 67 were approved and authorised for issue by the Board of Directors on 26 April 2019 and are signed on its behalf by:


Lourdes A. SALAZAR


KWAN Kie Yip

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2018

	Notes	Reserves					
		Share capital HK\$ (Note 23)	General reserve HK\$	Impairment reserve HK\$	Retained profits HK\$	Total reserves HK\$	Total HK\$
At 1 January 2017		185,700,000	7,000,000	9,101,204	232,973,185	249,074,389	434,774,389
Profit for the year		-	-	-	38,440,752	38,440,752	38,440,752
Total comprehensive income for the year		-	-	-	38,440,752	38,440,752	38,440,752
2017 preference shares dividend	11	-	-	-	(1,035,000)	(1,035,000)	(1,035,000)
At 31 December 2017 (Reported)		185,700,000	7,000,000	9,101,204	270,378,937	286,480,141	472,180,141
Impact of adopting HKFRS 9 Restated opening balance under HKFRS 9 as at 1 January 2018	2.2	-	-	-	1,379,276	1,379,276	1,379,276
Transfer from retained profits		-	-	1,651,828	(1,651,828)	-	-
Profit for the year and total comprehensive income for the year		-	-	-	34,790,543	34,790,543	34,790,543
2018 preference shares dividend	11	-	-	-	(1,035,000)	(1,035,000)	(1,035,000)
At 31 December 2018		185,700,000	7,000,000	10,753,032	303,861,928	321,614,960	507,314,960

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK\$	2017 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		39,600,296	44,289,908
Adjustments for:			
Credit loss expenses/(Net writeback of Impairment provision)	15	559,308	(132,312)
Depreciation	8	1,199,463	1,176,015
Loss/(Gain) on disposal of property and equipment	7, 8, 19	2	(44,450)
Gain on change in fair value of an investment property	7, 17	(10,000,000)	(12,000,000)
		<u>31,359,069</u>	<u>33,289,161</u>
(Increase)/Decrease in placements with banks and other financial institutions with maturity more than three months when acquired		(51,981,126)	1,712,403
Increase in advances and other accounts		(59,722,551)	(17,092,878)
Decrease/(increase) in derivative financial instruments		587,978	(584,144)
Decrease in deposits and balances of banks and other financial institutions		(5,351,737)	(2,805,962)
Increase/(Decrease) in deposits from customers		48,887,897	(75,624,699)
Increase/(Decrease) in other accounts and payables		839,802	(3,685,193)
		(35,380,668)	(64,791,312)
Hong Kong profits tax paid		(5,385,560)	(4,842,942)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		<u>(40,766,228)</u>	<u>(69,634,254)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment	19	(132,360)	(799,710)
Proceeds from disposal of items of property and equipment		-	45,799
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(132,360)</u>	<u>(753,911)</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid to preference shareholders	11	(1,035,000)	(1,035,000)
NET CASH FLOWS USED IN FINANCING ACTIVITY		<u>(1,035,000)</u>	<u>(1,035,000)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(41,933,588)</u>	<u>(71,423,165)</u>
Cash and cash equivalents at beginning of year		<u>361,522,672</u>	<u>432,945,837</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>319,589,084</u></u>	<u><u>361,522,672</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	12	271,647,933	310,772,532
Placements with banks and other financial institutions repayable within three months when acquired		<u>47,941,151</u>	<u>50,750,140</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows		<u><u>319,589,084</u></u>	<u><u>361,522,672</u></u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9, Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK (IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

The Group has adopted HKFRS 9 effective 1 January 2018 using a modified retrospective approach. This approach allows the entity not to restate prior periods, however, adjustments are made at the beginning balance of the annual reporting period that includes the date of initial adoption. HKFRS 9 replaces HKAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of HKFRS 9. The Group adopted the requirements of the standard as follows:

HKFRS 9 includes a logical model for classification and measurement, a forward-looking "expected loss" impairment model. Under HKFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI).

A. Classification and measurement

The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

- (a) Financial assets measured at amortised cost – that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's cash and cash equivalents, placements with banks and financial institutions maturing between one and twelve months, advances and other accounts.
- (b) Financial assets (equity investments) measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognised are not reclassified to profit or loss – financial assets in this category are equity instruments that meets the intention to hold for the foreseeable future. For this financial asset, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains or losses in other comprehensive income without subsequent reclassification of fair value gains or losses to the income statement even upon disposal. Financial assets in this category are

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

A. Classification and measurement (continued)

- (b) not subject to an impairment assessment under HKFRS 9. The Group does not have any financial assets classified in this category.
- (c) Financial assets measured at fair value through profit or loss (FVPL) – that include derivative instruments, equity instruments held for trading and debt instruments of which the cash flow characteristics fail the SPPI criterion or they are not held within a business model with the objective either to collect contractual cash flows, or to both collect contractual cash flows and sell. This category includes derivative financial instruments held by the Group.
- (d) Financial assets (debt instruments) measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognised are reclassified to profit or loss - financial assets in this category are debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. The Group does not have any financial assets classified in this category.

The assessment of whether the contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

B. Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record impairment allowances for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk since their initial recognition. As a result, under general approach, ECL allowances are measured at an amount equal to either:

- (i) 12-month ECL; or
- (ii) Lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition

C. Hedge accounting

The new hedge accounting model under HKFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Group has assessed that the adoption of these amendments will not have any impact in the 2018 financial statements as the Group does not apply hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

A reconciliation between the carrying amounts under HKAS 39 to the balances reported under HKFRS 9 as of 1 January 2018 as follows:

	HKAS 39		ECL	HKFRS 9	
	Category	Amount	Remeasurement	Category	Amount
		HK\$	HK\$		HK\$
Financial assets					
Cash and cash equivalents	L&R ¹	310,772,532	(116,206)	AC ²	310,656,326
Placements with banks and other financial institutions maturing between one and twelve months	L&R	142,201,316	(45,196)	AC	142,156,120
Derivative financial instruments	FVTPL	514,753	-	FVPL	514,753
Advances and other accounts	L&R	1,124,593,100	1,813,230	AC	1,126,406,330
Total financial assets		1,578,081,701	1,651,828		1,579,733,529
Financial liabilities					
Deposits and balances of banks and other financial institutions	AC	33,283,845	-	AC	33,283,845
Deposits from customers	AC	1,156,887,973	-	AC	1,156,887,973
Derivative financial instruments	FVTPL	16,586	-	FVPL	16,586
Other accounts and payables	AC	12,072,890	-	AC	12,072,890
Total financial liabilities		1,202,261,294	-		1,202,261,294
Non-financial liabilities					
Deferred tax liability		1,137,495	272,552		1,410,047
Total liabilities		1,203,398,789	272,552		1,203,671,341

Remarks :

L&R Loans & receivables

AC Amortised cost

FVTPL Fair value through profit or loss

FVPL Fair value through profit or loss

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The impact of transition to HKFRS 9 on reserves is as follows:

	HK\$
Retained profits	
Closing balance under HKAS 39 – 31 December 2017	270,378,937
Recognition of HKFRS 9 ECLs	1,651,828
Deferred tax effect	(272,552)
Opening balance under HKFRS 9 – 1 January 2018	271,758,213
Total change in equity due to adoption of HKFRS 9	1,379,276

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. Revenue arising from contracts with customers refer mainly to loan commitments that are simple and straightforward in nature and do not include variable components. Such commercial banking transactions are generally expected to be the only performance obligation of the relevant parties. The Group applied HKFRS 15 on its revenue arrangements (e.g. commissions, handling fees, service fees) that are scoped in the new standard. In addition, guidance on interest income has been moved from HKAS 18 to HKFRS 9 without significant changes to the requirements. The Group has assessed that the effect of these changes is immaterial.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Definition of a Business²</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 16	<i>Leases¹</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material²</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement¹</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures¹</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatment¹</i>
Amendments under Annual Improvements to HKFRSs 2015-2017 Cycle:	
HKFRS 3	<i>Business Combinations¹</i>
HKFRS 11	<i>Joint Arrangements¹</i>
HKAS 12	<i>Income Taxes¹</i>
HKAS 23	<i>Borrowing Costs¹</i>

¹ Effective for annual periods beginning on or after 1 January 2019

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

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

NOTES TO THE FINANCIAL STATEMENTS

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 3 (Amendments), "Definition of a Business". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a business combination transaction should be accounted for as a business combination or as an asset acquisition. The amendments are to be applied prospectively and early application is permitted. The application of this amendment will not have a material impact on the Group's financial statements.

Under HKFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to HKFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. The amendments are not expected to have any material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively and early application is permitted. The application of these amendments will not have a material impact on the Group's financial statements.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. There is no impact on the Group's consolidated financial statements upon adoption of HKFRS 16 as there is no change on the recognition of the lease as a lessor.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

HKFRS 17 Insurance Contracts which was issued in January 2018, will be effective 1 January 2021. It sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. The Group is in progress of assessment of its impact.

HKAS 1 and HKAS 8 (Amendments), "Definition of Material". The amendments clarify the definition of materiality of information and align the definition used across other accounting standards. The amendments are to be applied prospectively and early application is permitted. The application of these amendments will not have a material impact on the Group's financial statements.

HKAS 28 (Amendments), "Long-term interests in Associates and Joint Ventures". The amendments clarify that long-term interests such as preference shares, to which the equity method shall not be applied, are in the scope of both HKFRS 9 HKAS 28 and explains that HKFRS 9 is applied independently before the allocation of losses under the equity method. The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

The HK(IFRIC)-Int 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12 and does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The HK(IFRIC)-Int 23 specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. The Group does not expect that applying the Interpretation may affect the consolidated financial statements and the required disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition - interest income and expenses

Interest income and expenses are recognised on a time-proportion basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts. Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition - fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment charge are recognised on a straight-line basis over the commitment period.

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

Revenue recognition - rental income

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

Expense recognition

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

Impairment of non-financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

Property and equipment and depreciation

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item other than legal titles, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and classified as "Property and equipment" but represented on a separate line with the corresponding liability to the lessor included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest expense" in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the consolidated statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and are included in "Operating expenses".

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated statement of profit or loss.

Group as a lessor

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

Investment property

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement *Policies applicable beginning 1 January 2018*

Date of recognition

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

(i) Financial assets

Initial recognition and subsequent measurement

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

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

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

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

Financial assets at FVPL

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

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

Financial assets at amortised cost

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)
Policies applicable beginning 1 January 2018

(i) Financial assets (continued)

Financial assets at amortised cost (continued)

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

The Group's financial assets at amortised cost includes cash and short term placements, placements with banks and financial institutions, loans and advances and receivables.

Financial assets at FVOCI

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

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

For debt and equity instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. As at 31 December 2018, the Group does not have any financial assets at FVOCI.

(ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at FVPL

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued) *Policies applicable beginning 1 January 2018*

(ii) Financial liabilities (continued)

Financial liabilities at FVPL (continued)

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

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Policies applicable prior to 1 January 2018

Before 1 January 2018, the Group classifies its financial assets in the following categories: financial assets at FVTPL – available-for sale investments, held-to-maturity investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. Financial liabilities are classified into financial liabilities at FVTPL and financial liabilities at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in a active market. Management determines the classification of its investments at initial recognition and where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

Financial assets at FVTPL

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives,

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)
Policies applicable prior to 1 January 2018

Financial assets at FVTPL (continued)

including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets designated at FVTPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Net writeback of impairment provision' in the consolidated statement of profit or loss.

Financial liabilities at FVTPL

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Gains or losses on liabilities held for trading are recognized in the profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest amortization 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 amortization is included in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

Policies applicable beginning 1 January 2018

The Group recognises an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group 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.

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). The Group recognizes impairment allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVPL:

- Loans and advances
- Lease receivables (if any);
- Account receivables;
- Accrued interest receivables;
- Off-balance sheet items with contingent liability such as Letter of Credit, Shipping Guarantee, Acceptance and Guarantee (Utility);
- Money market placements

The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

Stage	Description	Impairment Loss
1	Performing	12-month ECL
2	Performing but with credit risk increased significantly at reporting date since its initial recognition (Account is classified as "Substandard")	Lifetime ECL
3	Non-performing	Lifetime ECL

Both lifetime ECL and 12-month ECL are calculated on an account-level.

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

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

Measurement of ECLs

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

Policies applicable beginning 1 January 2018

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

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

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

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

For advances portfolios, modeling of parameters are carried out on collective basis and the advances exposures are grouped on the basis of their credit risk characteristics such as product type, loan tenor, loan to value, collateral type and interest spread and other relevant factors.

Under HKFRS9, the Group incorporated forward-looking information into its measurement of ECLs on a risk based approach. It is applicable from 1 January 2018 and disclosed in Note 2.2. The Group formulated a "baseline" view of the future direction of relevant economic information (changes in property prices) and significant increase in credit risk analysis on each portfolio of financial assets.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
Policies applicable beginning 1 January 2018

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

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

The Group assess whether financial asset carried at amortised cost are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, and the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cashflows, such as changes in arrears or economic conditions that correlate with defaults.

For cash and cash equivalents, placements with banks and other financial institutions and loans and receivables, the ECL is based on the 12-months ECL. The 12-month ECL is a portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policies applicable beginning 1 January 2018

Placements with banks and other financial institutions rated is with low credit risk if its international credit grading is equivalent to or higher than investment grading of the relevant credit rating agent such as S&P Global Ratings Inc. or Moody's Investor Service. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from S&P or Moody's to determine whether the debt instrument has significant increase in credit risk and to estimate ECLs.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in the consolidated income statement.

Policies applicable prior to 1 January 2018

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, and the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cashflows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued) *Policies applicable prior to 1 January 2018*

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in the profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

Offsetting of financial instruments

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

Fair value measurement

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Derivative financial instruments

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

Equity instruments

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

Cash and cash equivalents

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

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

Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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 the consolidated statement of profit or loss.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Retirement benefit costs

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

Fiduciary assets

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

Repossessed assets

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

Foreign currencies

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

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

Reserves

The reserves recorded in equity of the Group's consolidated statement of financial position include:

- General reserve – General reserve is maintained for general contingencies.
- Collective impairment reserve – Collective impairment reserve is the previous years excessive collective impairment allowance transferred to reserve account.

Dividends

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends (continued)

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

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

The measurement of impairment losses under both HKFRS 9 and HKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Group's internal credit grading is based on external data mapping with our current portfolios of exposure in order to identify the corresponding grading of the exposures, which assigns probabilities of default to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposure.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as property / collateral values, and the effect on probabilities of default, exposures at default and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

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

Fair value of investment property

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

5. FINANCIAL RISK MANAGEMENT

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

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

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

5.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk.

5.1.1. Management of credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Management of credit risk (continued)

The members of the Executive Committee include the directors of the Board of the parent bank and other directors.

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

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

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

5.1.2 Risk mitigation policies

Some specific control and mitigation measures are outlined below.

Collateral

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

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

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

Derivatives

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

Derivatives (continued)

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

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

Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisation to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the amount of loss is likely to be less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

5.1.3 Impairment and provisioning policies

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Impairment and provisioning policies (continued)

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

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

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

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

The Group assess whether financial asset carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Impairment and provisioning policies (continued)

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

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

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with forward-looking expected credit loss (ECL) approach. HKFRS 9 also requires the Group to record impairment allowances for ECL for money market placements. The allowances are based on the ECLs associated with the probability of default in the next twelve months or lifetime using a 3-stage approach. The details of methodologies for measurement and impairment of ECLs for money market placements are disclosed in Note 3.

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

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

	2018 HK\$	2017 HK\$
ASSETS		
Cash and cash equivalents	271,537,528	310,696,764
Placements with banks and other financial institutions maturing between one and twelve months	191,312,018	142,201,316
Derivative financial instruments	262,344	514,753
Advances and other accounts	1,185,580,011	1,124,593,100
	<u>1,648,691,901</u>	<u>1,578,005,933</u>

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

	2018 HK\$	2017 HK\$
Loan commitments	61,509,242	85,760,772
Guarantees, acceptance and other financial liabilities	6,086,526	5,600,262
	<u>67,595,768</u>	<u>91,361,034</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

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

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

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

For the year ended 31 December 2018, the Bank's net credit exposure arising from advances to customers after the financial effect of collateral and other credit enhancements amounted to HK\$1,997,067 (2017: HK\$2,894,235).

5.1.5 Credit quality

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

	2018 HK\$	2017 HK\$
Neither past due nor impaired	1,172,691,889	1,103,617,090
Past due but not impaired	4,696,519	15,048,372
Impaired	2,110,175	134,175
Gross loans and advances to customers	1,179,498,583	1,118,799,637
Less: Expected credit losses		
Stage 1	(274,138)	N/A
Stage 3	(492,875)	N/A
impairment allowance	N/A	(1,914,252)
	<u>1,178,731,570</u>	<u>1,116,885,385</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Advances neither past due nor impaired

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

At 31 December 2018

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK\$	Term loans HK\$	Mortgages HK\$	Large corporate customers HK\$	SMEs HK\$	HK\$
GRADES:						
1. Pass	11,465,555	65,035,000	151,207,598	-	944,983,736	1,172,691,889
2. Special mention	-	-	-	-	-	-
Total	<u>11,465,555</u>	<u>65,035,000</u>	<u>151,207,598</u>	<u>-</u>	<u>944,983,736</u>	<u>1,172,691,889</u>

At 31 December 2017

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK\$	Term loans HK\$	Mortgages HK\$	Large corporate customers HK\$	SMEs HK\$	HK\$
GRADES:						
1. Pass	17,333,087	60,935,000	159,250,988	-	866,098,015	1,103,617,090
2. Special mention	-	-	-	-	-	-
Total	<u>17,333,087</u>	<u>60,935,000</u>	<u>159,250,988</u>	<u>-</u>	<u>866,098,015</u>	<u>1,103,617,090</u>

Advances past due but not impaired

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

At 31 December 2018

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK\$	Term loans HK\$	Mortgages HK\$	Large corporate customers HK\$	SMEs HK\$	HK\$
Past due up to						
30 days	-	-	3,172	-	2,102,779	2,105,951
31-60 days	4,945	-	16,578	-	73,679	95,202
61-90 days	-	-	-	-	-	-
Over 90 days	-	-	2,495,366	-	-	2,495,366
Total	<u>4,945</u>	<u>-</u>	<u>2,515,116</u>	<u>-</u>	<u>2,176,458</u>	<u>4,696,519</u>

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31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

At 31 December 2017

	Individual (retail customers)			Corporate entities		Total loans and advances to customers HK\$
	Overdrafts HK\$	Term loans HK\$	Mortgages HK\$	Large corporate customers HK\$	SMEs HK\$	
Past due up to						
30 days	-	-	4,841	-	9,520,000	9,524,841
31-60 days	-	-	16,305	-	5,507,226	5,523,531
61-90 days	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-
Total	-	-	21,146	-	15,027,226	15,048,372

Impaired advances

Advances to customers

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

At 31 December 2018

	Individual (retail customers)			Corporate entities		Total loans and advances to customers HK\$
	Overdrafts HK\$	Term loans HK\$	Mortgages HK\$	Large corporate customers HK\$	SMEs HK\$	
Gross impaired advance loans to customers	-	-	110,022	-	2,000,153	2,110,175
Impairment allowance made in respect of such advances						
- Stage 3	-	-	12,722	-	480,153	492,875
Fair value of collateral	-	-	-	-	1,600,000	1,600,000

At 31 December 2017

	Individual (retail customers)			Corporate entities		Total loans and advances to customers HK\$
	Overdrafts HK\$	Term loans HK\$	Mortgages HK\$	Large corporate customers HK\$	SMEs HK\$	
Individually impaired advance loans to customers	-	-	134,022	-	153	134,175
Individual impairment allowance made in respect of such advances	-	-	18,099	-	153	18,252
Fair value of collateral	-	-	-	-	-	-

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31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Impaired advances (continued)

During the year, there is no asset obtained by the Group for taking possession of collateral held as security.

Loans and advances to banks

There are no individually impaired loans and advances to banks as at 31 December 2018 and 2017.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with accounts of similar status. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

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

There are no renegotiated loans that would otherwise be past due or impaired as at 31 December 2018 and 2017.

5.2 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

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

5.2.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

rate exposures are managed within the approved policy parameters by utilising forward foreign exchange contracts.

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

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

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

	US\$	HK\$	Euro	GBP	Other	Total
<u>At 31 December 2018</u>						
ASSETS						
Cash and cash equivalents	227,811,567	36,850,599	140,214	91,958	6,843,190	271,537,528
Placements with banks and other financial institutions between one and twelve months	134,546,257	20,588,467	-	9,663,629	26,513,665	191,312,018
Derivative financial instruments	131,172	129,875	1,297	-	-	262,344
Financial assets included in advances and other accounts	14,183,526	1,164,291,114	5,289,468	29,055	197,631	1,183,990,794
Total assets	<u>376,472,522</u>	<u>1,221,860,055</u>	<u>5,430,979</u>	<u>9,784,642</u>	<u>33,554,486</u>	<u>1,647,102,684</u>
LIABILITIES						
Deposits and balances of banks and other financial institutions	6,756,489	21,172,896	-	-	2,723	27,932,108
Deposits from customers	853,988,352	302,688,955	6,248,556	9,940,475	32,908,532	1,205,775,870
Derivative financial instruments	176,078	174,470	1,607	-	-	352,155
Other accounts and payable	1,094,466	11,723,130	-	-	95,096	12,912,692
Total liabilities	<u>862,015,385</u>	<u>335,759,451</u>	<u>6,250,163</u>	<u>9,940,475</u>	<u>33,007,351</u>	<u>1,246,972,825</u>
Net on-balance sheet position	<u>(485,524,863)</u>	<u>886,100,604</u>	<u>(819,184)</u>	<u>(155,833)</u>	<u>547,135</u>	<u>400,129,859</u>

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31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

	US\$	HK\$	Euro	GBP	Other	Total
<u>At 31 December 2017</u>						
ASSETS						
Cash and cash equivalents	229,696,495	73,385,639	239,964	97,382	7,363,052	310,772,532
Placements with banks and other financial institutions between one and twelve months	101,982,556	17,406,125	-	10,226,514	12,586,121	142,201,318
Derivative financial instruments	257,376	242,050	15,063	-	264	514,753
Financial assets included in advances and other accounts	16,851,407	1,102,409,123	3,020,502	5,183	546,324	1,122,632,539
Total assets	<u>348,787,834</u>	<u>1,193,442,937</u>	<u>3,275,529</u>	<u>10,328,079</u>	<u>20,485,761</u>	<u>1,576,321,140</u>
LIABILITIES						
Deposits and balances of banks and other financial institutions	5,306,665	27,974,231	-	-	2,949	33,283,845
Deposits from customers	779,840,037	341,055,338	6,519,636	10,526,818	19,146,144	1,156,887,973
Derivative financial instruments	8,293	7,989	-	-	304	16,586
Other accounts and payable	865,641	11,139,129	-	-	68,120	12,072,890
Total liabilities	<u>785,820,636</u>	<u>380,176,687</u>	<u>6,519,636</u>	<u>10,526,818</u>	<u>19,217,517</u>	<u>1,202,261,294</u>
Net on-balance sheet position	<u>(437,032,802)</u>	<u>813,266,250</u>	<u>(3,244,107)</u>	<u>(197,739)</u>	<u>1,268,244</u>	<u>374,059,846</u>

Foreign currency sensitivity

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

	2018		2017	
	Change in percent		Change in percent	
	+1	-1	+1	-1
	HK\$	HK\$	HK\$	HK\$
Profit before tax	<u>4,855,429</u>	<u>(4,855,429)</u>	<u>4,370,328</u>	<u>(4,370,328)</u>

5.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

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31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

	Effective interest rate	Up to 1 month HK\$	1 - 3 months HK\$	4 - 12 months HK\$	1 - 5 years HK\$	Over 5 years HK\$	Non- interest bearing HK\$	Total HK\$
<u>At 31 December 2018</u>								
ASSETS								
Cash and cash equivalents	2.09%	223,256,776	-	-	-	-	48,280,752	271,537,528
Placements with banks and other financial institutions								
between one and twelve months	2.20%	-	130,168,359	61,143,659	-	-	-	191,312,018
Derivative financial instruments	0.00%	-	-	-	-	-	262,344	262,344
Financial assets included in advances and other accounts	4.81%	1,178,315,318	-	-	-	-	5,675,476	1,183,990,794
Total assets		<u>1,401,572,094</u>	<u>130,168,359</u>	<u>61,143,659</u>	<u>-</u>	<u>-</u>	<u>54,218,572</u>	<u>1,647,102,684</u>
LIABILITIES								
Deposits and balances of banks and other financial institutions	4.20%	27,932,108	-	-	-	-	-	27,932,108
Deposits from customers	0.49%	426,059,969	468,839,518	310,876,383	-	-	-	1,205,775,870
Derivative financial instruments	0.00%	-	-	-	-	-	352,155	352,155
Other accounts and payables	0.00%	-	-	-	-	-	12,912,692	12,912,692
Total liabilities		<u>453,992,077</u>	<u>468,839,518</u>	<u>310,876,383</u>	<u>-</u>	<u>-</u>	<u>13,264,847</u>	<u>1,246,972,825</u>
Total interest sensitivity gap		<u>947,580,017</u>	<u>(338,671,159)</u>	<u>(249,732,724)</u>	<u>-</u>	<u>-</u>	<u>40,953,725</u>	<u>400,129,859</u>

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31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

At 31 December 2017

	Effective interest rate	Up to 1 month HK\$	1 - 3 months HK\$	4 - 12 months HK\$	1 - 5 years HK\$	Over 5 years HK\$	Non- interest bearing HK\$	Total HK\$
ASSETS								
Cash and cash equivalents	1.20%	228,836,928	-	-	-	-	81,935,604	310,772,532
Placements with banks and other financial institutions								
between one and twelve months	1.16%	-	83,722,445	58,478,871	-	-	514,753	142,201,316
Derivative financial instruments	0.00%	-	-	-	-	-	-	514,753
Financial assets included in advances and other accounts	4.69%	1,115,718,408	-	-	-	-	7,114,131	1,122,832,539
Total assets		1,344,555,336	83,722,445	58,478,871	-	-	89,564,488	1,576,321,140
LIABILITIES								
Deposits and balances of banks and other financial institutions	4.39%	33,283,845	-	-	-	-	-	33,283,845
Deposits from customers	0.32%	419,008,729	432,252,565	305,626,679	-	-	-	1,156,887,973
Derivative financial instruments	0.00%	-	-	-	-	-	16,586	16,586
Other accounts and payables	0.00%	-	-	-	-	-	12,072,890	12,072,890
Total liabilities		452,292,574	432,252,565	305,626,679	-	-	12,089,476	1,202,261,294
Total interest sensitivity gap		892,262,762	(348,530,120)	(247,147,808)	-	-	77,475,012	374,059,846

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5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

Interest rate sensitivity

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

	2018		2017	
	Change in basis points		Change in basis points	
	+100	-100	+100	-100
	HK\$	HK\$	HK\$	HK\$
Profit before tax	<u>3,591,761</u>	<u>(3,591,761)</u>	<u>2,965,848</u>	<u>(2,965,848)</u>

5.3 Liquidity risk

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

5.3.1 Management of liquidity risk

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

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5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.1 Management of liquidity risk (continued)

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

	Less than 1 month HK\$	1 - 3 months HK\$	4 - 12 months HK\$	1 - 5 years HK\$	Over 5 years HK\$	Undated HK\$	Total HK\$
At 31 December 2018							
Liabilities							
Deposits and balances of banks and other financial institutions	28,031,386	-	-	-	-	-	28,031,386
Deposits from customers	334,211,402	561,917,189	311,897,822	-	-	-	1,208,026,413
Other accounts and payables	2,323,459	1,436,970	1,741,913	643,183	-	6,767,167	12,912,692
	<u>364,566,247</u>	<u>563,354,159</u>	<u>313,639,735</u>	<u>643,183</u>	<u>-</u>	<u>6,767,167</u>	<u>1,248,970,491</u>
Derivative cash flow							
Derivative financial instruments settled on net basis	(80)	-	-	-	-	-	(60)
Total outflow	(286,599)	-	-	-	-	-	(286,599)
Total inflow	286,539	-	-	-	-	-	286,539
Derivative financial instruments settled on gross basis							
Total outflow	(64,903,922)	(117,447,450)	(304,393,900)	-	-	-	(486,745,272)
Total inflow	<u>64,901,037</u>	<u>117,503,700</u>	<u>305,509,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,914,357</u>
At 31 December 2017							
Liabilities							
Deposits and balances of banks and other financial institutions	33,408,756	-	-	-	-	-	33,408,756
Deposits from customers	328,277,746	523,833,925	306,459,346	-	-	-	1,158,571,017
Other accounts and payables	2,225,835	783,676	1,758,215	1,043,690	-	6,261,474	12,072,890
	<u>363,912,337</u>	<u>524,617,601</u>	<u>308,217,561</u>	<u>1,043,690</u>	<u>-</u>	<u>6,261,474</u>	<u>1,204,052,663</u>
Derivative cash flow							
Derivative financial instruments settled on net basis	-	-	-	-	-	-	-
Total outflow	-	-	-	-	-	-	-
Total inflow	-	-	-	-	-	-	-
Derivative financial instruments settled on gross basis							
Total outflow	(82,608,052)	(140,325,000)	(218,011,400)	-	-	-	(440,944,452)
Total inflow	<u>82,838,422</u>	<u>140,720,040</u>	<u>218,897,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442,456,302</u>

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5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.2 Off-balance sheet items

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

	Less than 1 year HK\$	1-5 years HK\$	Over 5 years HK\$	Total HK\$
<u>At 31 December 2018</u>				
Loan commitments	61,509,242	-	-	61,509,242
Guarantee, acceptances and other financial facilities	6,086,526	-	-	6,086,526
Total	<u>67,595,768</u>	<u>-</u>	<u>-</u>	<u>67,595,768</u>

	Less than 1 year HK\$	1-5 years HK\$	Over 5 years HK\$	Total HK\$
<u>At 31 December 2017</u>				
Loan commitments	85,760,772	-	-	85,760,772
Guarantee, acceptances and other financial facilities	5,600,262	-	-	5,600,262
Total	<u>91,361,034</u>	<u>-</u>	<u>-</u>	<u>91,361,034</u>

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5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.3 Analysis of assets and liabilities by remaining maturity

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

31 December 2018

	On Demand HK\$	Up to 1 month HK\$	1 - 3 months HK\$	4 - 12 months HK\$	1 - 5 years HK\$	Over 5 years HK\$	Indefinite Period HK\$	Total HK\$
ASSETS								
Cash and cash equivalents	48,280,752	223,256,776	-	-	-	-	-	271,537,528
Placements with banks and other financial institutions between one and twelve months	-	-	130,168,359	61,143,659	-	-	-	191,312,018
Derivative financial instruments	-	2,594	56,800	202,950	-	-	-	262,344
Financial assets included in advances and other accounts	-	414,199,775	220,789,223	107,112,434	208,346,953	228,456,451	5,085,958	1,183,990,794
Total assets	48,280,752	637,459,145	351,014,382	168,459,043	208,346,953	228,456,451	5,085,958	1,647,102,684
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	27,932,108	-	-	-	-	-	27,932,108
Deposits from customers	-	333,793,211	561,106,276	310,876,383	-	-	-	1,205,775,870
Derivative financial instruments	-	120,275	160,550	71,330	-	-	-	352,155
Other accounts and payables	-	2,323,459	1,436,970	1,741,913	643,183	-	6,767,167	12,912,692
Total liabilities	-	364,169,053	562,703,796	312,689,626	643,183	-	6,767,167	1,246,972,825
Total liquidity gap	48,280,752	273,290,092	(211,689,414)	(144,230,583)	207,703,770	228,456,451	(1,681,209)	(400,129,859)

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31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

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

31 December 2017

	On Demand HK\$	Up to 1 month HK\$	1 - 3 months HK\$	4 - 12 months HK\$	1 - 5 years HK\$	Over 5 years HK\$	Indefinite Period HK\$	Total HK\$
ASSETS								
Cash and cash equivalents	81,935,604	228,836,928	-	-	-	-	-	310,772,532
Placements with banks and other financial institutions between one and twelve months	-	-	83,722,445	58,478,871	-	-	-	142,201,316
Derivative financial instruments	-	96,193	125,420	293,140	-	-	-	514,753
Financial assets included in advances and other accounts	-	381,158,619	188,172,370	103,752,922	190,300,818	252,467,679	6,980,131	1,122,832,539
Total assets	81,935,604	610,091,740	272,020,235	162,524,933	190,300,818	252,467,679	6,980,131	1,576,321,140
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	33,283,845	-	-	-	-	-	33,283,845
Deposits from customers	-	327,973,891	523,287,403	305,626,679	-	-	-	1,156,887,973
Derivative financial instruments	-	4,006	12,580	-	-	-	-	16,586
Other accounts and payables	-	2,225,835	783,676	1,758,215	1,043,690	-	6,261,474	12,072,890
Total liabilities	-	363,487,577	524,083,659	307,384,894	1,043,690	-	6,261,474	1,202,261,294
Total liquidity gap	81,935,604	246,604,163	(252,063,424)	(144,859,961)	189,257,128	252,467,679	718,657	374,058,846

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31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management

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

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

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

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

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

6. FAIR VALUE MEASUREMENT

6.1 Fair values of assets and liabilities measured at fair value

Assets measured at fair value as at 31 December 2018:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK\$	Significant observable inputs (Level 2) HK\$	Significant unobservable inputs (Level 3) HK\$	Total HK\$
Recurring fair value measurements				
<u>Financial asset</u>				
Derivative financial instruments	-	262,344	-	262,344
	-	262,344	-	262,344
<u>Non-financial asset</u>				
Investment property	-	-	80,000,000	80,000,000
	-	-	80,000,000	80,000,000
Total	-	262,344	80,000,000	80,262,344

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6. FAIR VALUE MEASUREMENT (continued)

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

Liability measured at fair value as at 31 December 2018:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK\$	Significant observable inputs (Level 2) HK\$	Significant unobservable inputs (Level 3) HK\$	Total HK\$
Recurring fair value measurement				
<u>Financial liability</u>				
Derivative financial instruments	-	352,155	-	352,155

Assets measured at fair value as at 31 December 2017:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK\$	Significant observable inputs (Level 2) HK\$	Significant unobservable inputs (Level 3) HK\$	Total HK\$
Recurring fair value measurements				
<u>Financial asset</u>				
Derivative financial instruments	-	514,753	-	514,753
	-	514,753	-	514,753
<u>Non-financial asset</u>				
Investment property	-	-	70,000,000	70,000,000
	-	-	70,000,000	70,000,000
Total	-	514,753	70,000,000	70,514,753

Liability measured at fair value as at 31 December 2017:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK\$	Significant observable inputs (Level 2) HK\$	Significant unobservable inputs (Level 3) HK\$	Total HK\$
Recurring fair value measurement				
<u>Financial liability</u>				
Derivative financial instruments	-	16,586	-	16,586

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

6. FAIR VALUE MEASUREMENT (continued)

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2017: Nil) and no transfers into or out of Level 3 (2017: Nil).

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

6.2 Information about Level 3 fair value measurements

The fair value of the Group's investment property is determined by adoption of direct comparison approach by Century 21 Surveyors Limited, an independent professional qualified valuer. Valuations were derived on the basis of assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. In the course of valuation, reference has been made to comparable market transactions of properties in the same development as well as other similar developments and taking into account the general market trends and other economic factors which may reasonably affect the open market value of the investment property as at 31 December 2018 and 2017.

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

Description	Fair Value at 31 December 2018	Valuation Techniques	Unobservable Input
Investment Property (Note 17)			
Land & Buildings	HK\$80,000,000 (31 December 2017: HK\$70,000,000)	Direct comparison approach	Location: Commercial centre of Central, predominated by Class A high rise commercial building and skyscrapers Size: Gross floor area: 2,615 s.f.

6.3 Financial instruments not measured at fair value

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

7. OTHER OPERATING INCOME

	2018 HK\$	2017 HK\$
<u>Revenue from contracts with customers</u>		
Handling fee	1,754,664	2,450,763
Service fee	2,084,000	1,816,136
Commitment charge	770,920	757,728
	<u>4,609,584</u>	<u>5,024,627</u>
<u>Revenue from other sources</u>		
Commission income from trade finance	323,383	403,832
Net gains arising from dealing in foreign currencies	216,426	2,871,613
	<u>539,809</u>	<u>3,275,445</u>
<u>Other income</u>		
Commission income from foreign exchange	86,928	451,911
Rental income	1,851,420	1,836,329
Penalty fee	306,170	661,860
Others	919,215	978,569
Gain on change in fair value of investment property (Note 17)	10,000,000	12,000,000
Gain on disposal of property and equipment	-	44,450
	<u>13,163,733</u>	<u>15,973,119</u>
	<u>18,313,126</u>	<u>24,273,191</u>

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

8. OPERATING EXPENSES

	2018 HK\$	2017 HK\$
Employee benefit expense (including directors' remuneration):		
Staff cost	27,083,006	24,885,467
Retirement benefits costs	722,096	769,724
Depreciation (Note 19)	1,199,463	1,176,015
Auditor's remuneration	1,260,000	1,260,000
Premises and equipment expenses	847,652	825,300
Loss on disposal of property and equipment	2	-
Other operating expenses	4,419,699	4,417,895
	<u>35,531,918</u>	<u>33,334,401</u>

For the year ended 31 December 2018, the Group had forfeited contributions amounting to HK\$25,823 (2017: HK\$36,241) available to reduce its contribution to the pension scheme in future years.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' REMUNERATION

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

	2018 HK\$	2017 HK\$
Fee	-	-
Other emoluments:		
Salaries and allowances	7,534,478	6,983,598
Pension scheme contributions	26,304	51,233
	<u>7,560,782</u>	<u>7,034,831</u>
	<u>7,560,782</u>	<u>7,034,831</u>

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

10. INCOME TAX

	2018 HK\$	2017 HK\$
Hong Kong profits tax		
Current tax	4,851,663	5,350,017
Deferred tax (Note 20)	(41,910)	499,139
	<u>4,809,753</u>	<u>5,849,156</u>

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

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

	2018 HK\$	%	2017 HK\$	%
Profit before tax	<u>39,600,296</u>		<u>44,289,908</u>	
Tax at statutory rate of 16.5% (2017: 16.5%)	6,534,049	16.50	7,307,835	16.50
Tax relief under the two-tiered tax regime	(165,000)	(0.42)	-	-
Income not subject to tax	(1,689,544)	(4.27)	(2,012,468)	(4.54)
Expenses not deductible for tax	309,126	0.78	306,434	0.69
Temporary difference not recognized	-	-	-	-
Recognition of previously unrecognised temporary difference	<u>(178,878)</u>	<u>(0.45)</u>	<u>247,355</u>	<u>0.67</u>
Tax charge at the Group's effective rate	<u>4,809,753</u>	<u>12.14</u>	<u>5,849,156</u>	<u>13.21</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

11. PREFERENCE SHARES DIVIDEND

Dividend amounting to HK\$1,035,000 (2017: HK\$1,035,000) has been accrued for preference shares by the directors.

12. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2018 HK\$	2017 HK\$
Cash and bank balances	48,280,752	81,935,604
Money at call and short notice	223,367,181	228,836,928
	271,647,933	310,772,532
Less: allowance for impairment losses	110,405	-
Cash and cash equivalents	271,537,528	310,772,532

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

	2018			Total
	Stage 1	Stage 2	Stage 3	
Balance as of 1 January 2018 (Note 2.2)	116,206	-	-	116,206
Assets derecognized or repaid during the year (Note 15)	(5,801)	-	-	(5,801)
Balance at 31 December 2018	110,405	-	-	110,405

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

This account consists of the following:

	2018 HK\$	2017 HK\$
Placements with banks and financial institutions	191,373,452	142,201,316
Less: allowance for impairment losses	61,434	-
Placements with banks and financial institutions	191,312,018	142,201,316

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

	2018			Total
	Stage 1	Stage 2	Stage 3	
Balance as of 1 January 2018 (Note 2.2)	45,196	-	-	45,196
New assets originated or purchased (Note 15)	16,238	-	-	16,238
Balance at 31 December 2018	61,434	-	-	61,434

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK\$	2017 HK\$
Forward foreign currency contracts		
- Assets	<u>262,344</u>	<u>514,753</u>
- Liabilities	<u>(352,155)</u>	<u>(16,586)</u>

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

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

	2018 HK\$	2017 HK\$
Forward foreign currency contracts	<u>488,200,896</u>	<u>442,456,302</u>

15. CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES

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

	2018			
	12-months expected credit loss (Stage 1) HK\$	Lifetime expected credit loss not credit impaired (Stage 2) HK\$	Lifetime expected credit loss credit impaired (Stage 3) HK\$	Total HK\$
Net charge for/(write-back of) credit loss expenses :				
-Advances to customers	191,368	-	357,503	548,871
-Cash and cash equivalents	(5,801)	-	-	(5,801)
-Placements with banks and financial institutions	16,238	-	-	16,238
	<u>201,805</u>	<u>-</u>	<u>357,503</u>	<u>559,308</u>

NOTES TO THE FINANCIAL STATEMENTS

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15. CREDIT LOSS EXPENSES / NET WRITEBACK OF IMPAIRMENT PROVISION (continued)

	Individual impairment allowance	2017 Collective impairment allowance	Total
Net charge for/(write-back of) impairment losses and allowances :			
-amounts write-back	(132,876)	-	(132,876)
-impairment losses	564	-	564
	(132,312)	-	(132,312)

16. ADVANCES AND OTHER ACCOUNTS

	2018 HK\$	2017 HK\$
Advances to customers	1,179,498,583	1,118,799,637
Less: allowance for impairment losses	767,013	1,914,252
	1,178,731,570	1,116,885,385
Other accounts	6,848,441	7,707,715
	1,185,580,011	1,124,593,100

Other accounts include HK\$5,258,742 (2017: HK\$5,947,154) of financial assets which were measured at amortised cost.

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

	2018			
	Stage 1	Stage 2	Stage 3	Total
	HK\$	HK\$	HK\$	HK\$
Gross advances as at 1 January 2018	1,118,665,462	-	134,175	1,118,799,637
New loans/financing originated or purchased	414,441,739	-	563	414,442,302
Loans/financing derecognized or repaid	(353,718,793)	-	(24,000)	(353,742,793)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(2,000,000)	-	2,000,000	-
Total transfer between stages	(2,000,000)	-	2,000,000	-
Written off	-	-	(563)	(563)
Balance at 31 December 2018	1,177,388,408	-	2,110,175	1,179,498,583

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

16. ADVANCES AND OTHER ACCOUNTS (continued)

Movement in impairment allowance on advances and other accounts

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance as of 31 December 2017				1,914,252
HKFRS 9 transition				(1,813,230)
Balance at 1 January 2018	82,770	-	18,252	101,022
New assets originated or purchased	248,478	-	-	248,478
Assets derecognized or repaid	(57,110)	-	(123,060)	(180,170)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change arising from transfer of stage	-	-	480,563	480,563
Impact on year-end ECL exposures transferred between stages during the year	-	-	-	-
Recoveries	-	-	117,683	117,683
Written-off	-	-	(563)	(563)
Balance at 31 December 2018	274,138	-	492,875	767,013

	Individual assessment HK\$	Collective assessment HK\$	Total assessment HK\$
Balance at 1 January 2017	24,837	1,896,000	1,920,837
Impairment losses	564	-	564
Amounts written-back	(132,876)	-	(132,876)
Net write-back to profit or loss	(132,312)	-	(132,312)
Amounts recovered	126,291	-	126,291
Amounts written off	(564)	-	(564)
	125,727	-	125,727
Balance at 31 December 2017	18,252	1,896,000	1,914,252

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

16. ADVANCES AND OTHER ACCOUNTS (continued)

Details of the impaired loans are as follows:

	2018 HK\$	2017 HK\$
Gross impaired loans	2,110,175	134,175
Less: Impairment allowances		
- stage 3	(492,875)	N/A
- individually assessed	<u>N/A</u>	<u>(18,252)</u>
Net impaired loans	<u>1,617,300</u>	<u>115,923</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.18%</u>	<u>0.01%</u>

17. INVESTMENT PROPERTY

	2018 HK\$	2017 HK\$
Carrying amount at 1 January	70,000,000	58,000,000
Net gain from fair value adjustment (Note 7)	<u>10,000,000</u>	<u>12,000,000</u>
Carrying amount at 31 December	<u>80,000,000</u>	<u>70,000,000</u>

The Group's investment property was revalued on 31 December 2018 by Century 21 Surveyors Limited, an independent professional qualified valuer, at HK\$80,000,000.

The investment property is held for rental purpose. Rental income of HK\$1,836,329 (2017: HK\$1,788,660) is recognised in the consolidated statement of profit or loss. No operating expenses arising from the investment property is recognised.

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

	2018 HK\$	2017 HK\$
Long term lease	<u>80,000,000</u>	<u>70,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS

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18. OPERATING LEASE ARRANGEMENT

Operating lease – Group as lessor

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

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

	2018 HK\$	2017 HK\$
Within one year	308,570	1,851,420
After one year but not more than five years	<u> </u>	<u>308,570</u>
	<u>308,570</u>	<u>2,159,990</u>

19. PROPERTY AND EQUIPMENT

	Land and buildings HK\$	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Motor vehicles HK\$	Total HK\$
COST						
At 1 January 2017	45,145,394	1,209,576	1,039,361	2,285,281	332,122	50,011,734
Additions	-	-	-	87,800	712,110	799,710
Disposals	-	-	(55,368)	(85,988)	(332,122)	(473,478)
At 31 December 2017 and 1 January 2018	45,145,394	1,209,576	983,993	2,286,893	712,110	50,337,966
Additions	-	-	-	132,360	-	132,360
Disposals	-	-	-	(11,930)	-	(11,930)
At 31 December 2018	<u>45,145,394</u>	<u>1,209,576</u>	<u>983,993</u>	<u>2,407,323</u>	<u>712,110</u>	<u>50,458,396</u>
DEPRECIATION						
At 1 January 2017	15,718,454	1,209,567	1,039,324	2,058,922	332,122	20,358,389
Provided for the year	965,456	-	-	115,611	84,948	1,176,015
Eliminated on disposals	-	-	(55,368)	(84,539)	(332,122)	(472,129)
At 31 December 2017 and 1 January 2018	16,683,910	1,209,567	983,956	2,089,894	84,948	21,062,275
Provided for the year	965,456	-	-	91,585	142,422	1,199,463
Eliminated on disposals	-	-	-	(11,928)	-	(11,928)
At 31 December 2018	<u>17,649,366</u>	<u>1,209,567</u>	<u>983,956</u>	<u>2,169,551</u>	<u>237,370</u>	<u>22,249,810</u>
NET CARRYING AMOUNTS						
At 31 December 2018	<u>27,496,028</u>	<u>9</u>	<u>37</u>	<u>237,772</u>	<u>474,740</u>	<u>28,208,586</u>
At 31 December 2017	<u>28,461,484</u>	<u>9</u>	<u>37</u>	<u>196,999</u>	<u>617,162</u>	<u>29,275,691</u>

The Group's land is included in property and equipment with a net carrying amount of HK\$24,398,208 (2017: HK\$25,254,968).

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

	2018 HK\$	2017 HK\$
Long term lease	<u>27,496,028</u>	<u>28,461,484</u>

NOTES TO THE FINANCIAL STATEMENTS

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20. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK\$	impairment allowance HK\$	Tax losses HK\$	Total HK\$
At 1 January 2017	(951,196)	312,840	±	(638,356)
Deferred tax charged to profit or loss during the year (Note 10)	(499,139)	-	-	(499,139)
At 31 December 2017 (Reported)	(1,450,335)	312,840	±	(1,137,495)
Impact of adopting HKFRS 9	-	(272,552)	±	(272,552)
Restated opening balance under HKFRS 9 At 1 January 2018	(1,450,335)	40,288	-	(1,410,047)
Deferred tax credited to profit or loss during the year (Note 10)	8,612	33,298	-	41,910
At 31 December 2018	(1,441,723)	73,586	-	(1,368,137)

At 31 December 2018, the Group has no estimated unused tax losses (2017: Nil) available for offset against future profits.

21. INVESTMENT IN A SUBSIDIARY

	2018 HK\$	2017 HK\$
Unlisted shares, at cost	<u>1,000,000</u>	<u>1,000,000</u>

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

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

	2018 HK\$	2017 HK\$
Total assets	23,131,738	19,920,520
Total equity	18,195,660	16,329,611

22. DEPOSITS FROM CUSTOMERS

	2018 HK\$	2017 HK\$
Time, call and notice deposits	1,204,008,801	1,155,124,486
Demand deposits and current accounts	<u>1,767,069</u>	<u>1,763,487</u>
	<u>1,205,775,870</u>	<u>1,156,887,973</u>

NOTES TO THE FINANCIAL STATEMENTS

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23. SHARE CAPITAL

	2018 HK\$	2017 HK\$
Issued and fully paid:		
18,920,925 (2017: 18,920,925) ordinary shares	165,000,000	165,000,000
2,070,000 (2017: 2,070,000) 5% non-cumulative and non-redeemable preference shares	<u>20,700,000</u>	<u>20,700,000</u>
	<u>185,700,000</u>	<u>185,700,000</u>

Note:

1. The 5% non-cumulative and non-redeemable preference shares ("Preference Shares") shall entitle the holders thereof upon winding-up to receive in priority to the holders of all other classes of shares repayment of the amount paid up or deemed to be paid up thereon but not to participate further in any surplus assets.
2. In addition, the Preference Shares shall entitle the holders to receive from the profits of the Company for each individual financial year as a first charge preference dividends at the rate 5% per annum on the amount of issued Preference Shares ("Capital"), but shall not entitle the holders to participate further in the profits of the Company.

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

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

NOTES TO THE FINANCIAL STATEMENTS

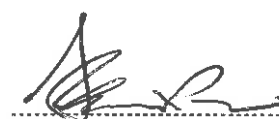
31 December 2018

24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 HK\$	2017 HK\$
ASSETS		
Cash and cash equivalents	269,444,485	309,471,538
Placements with banks and other financial institutions maturing between one and twelve months	170,723,551	124,795,191
Derivative financial instruments	262,344	514,753
Advances and other accounts	1,185,129,783	1,123,527,020
Investment in a subsidiary (Note 21)	1,000,000	1,000,000
Investment property	80,000,000	70,000,000
Property and equipment	28,208,586	29,275,691
Total assets	<u>1,734,768,749</u>	<u>1,658,584,193</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits and balances of banks and other financial institutions	27,932,108	33,283,845
Deposits from customers	1,205,775,870	1,156,887,973
Derivative financial instruments	352,155	16,586
Other accounts and payables	8,984,587	8,481,981
Current tax liabilities	1,236,592	1,925,783
Deferred tax liabilities	1,363,137	1,137,495
Total liabilities	<u>1,245,649,449</u>	<u>1,201,733,663</u>
EQUITY		
Share capital	185,700,000	185,700,000
Reserves	303,419,300	271,150,530
Total equity	<u>489,119,300</u>	<u>456,850,530</u>
Total liabilities and equity	<u>1,734,768,749</u>	<u>1,658,584,193</u>


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NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

Note:

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

	General reserve HK\$	Investment revaluation reserve HK\$	Collective impairment reserve HK\$	Retained profits HK\$	Total HK\$
At 1 January 2017	7,000,000	-	9,101,204	220,736,196	236,837,400
Total comprehensive income for the year	-	-	-	35,348,130	35,348,130
2017 preference shares dividend (Note 11)	-	-	-	(1,035,000)	(1,035,000)
At 31 December 2017 (Reported)	7,000,000	-	9,101,204	255,049,326	271,150,530
Impact of adopting HKFRS 9	-	-	-	1,379,276	1,379,276
Restated opening balance under HKFRS 9 at 1 January 2018	7,000,000	-	9,101,204	256,428,602	272,529,806
Transfer from retained profits	-	-	1,651,828	(1,651,828)	-
Profit for the year and total comprehensive income for the year	-	-	-	31,924,494	31,924,494
2018 preference shares dividend (Note 11)	-	-	-	(1,035,000)	(1,035,000)
At 31 December 2018	7,000,000	-	10,753,032	285,666,268	303,419,300

25. RELATED PARTY TRANSACTIONS

Outstanding balances with related parties:

	2018 HK\$	2017 HK\$
Parent bank:		
Deposits and balances of banks and other financial institutions	2,943,152	2,503,970
Fellow subsidiaries and affiliates and key personnel:		
Cash and cash equivalents	91,958	97,383
Deposits and balances of banks and other financial institutions	1,128,774	1,068,124
Deposits from customers	467,197,570	460,912,920

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charges to, and by, related parties are at normal commercial rates. There have been no guarantees provided or received for any related party receivables or payables. For the ended 31 December 2018, the Group has not recorded any impairment relating to amounts owed by related parties (2017: Nil).

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

26. LOANS TO OFFICERS

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

27. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

31 December 2018						
Financial assets/(liabilities) recognised at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria		
				Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative financial assets	262,344	-	262,344	262,344	-	-
Derivative financial liabilities	(352,155)	-	(352,155)	262,344	-	(89,811)

31 December 2017						
Financial assets/(liabilities) recognised at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria		
				Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative financial assets	514,753	-	514,753	16,586	-	498,167
Derivative financial liabilities	(16,586)	-	(16,586)	(16,586)	-	-

NOTES TO THE FINANCIAL STATEMENTS

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28. OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

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

	2018 HK\$	2017 HK\$
Trade-related contingencies	6,086,526	5,600,262
Other commitments:		
With an original maturity of under one year or which are unconditionally cancellable	<u>61,509,242</u>	<u>85,760,772</u>
	<u>67,595,768</u>	<u>91,361,034</u>
Aggregate credit risk weighted amount	<u>722,900</u>	<u>999,870</u>

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

(b) Derivatives financial instruments

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

	2018		2017	
	Replacement cost HK\$	Credit risk weighted amount HK\$	Replacement cost HK\$	Credit risk weighted amount HK\$
Exchange rate contracts	<u>1,225,915</u>	<u>1,221,585</u>	<u>1,515,854</u>	<u>1,188,083</u>

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

29. RETIREMENT BENEFITS PLAN

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

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

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

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2019.

**ALLIED BANKING CORPORATION (HONG KONG)
LIMITED**

新聯銀行(香港)有限公司

Unaudited Supplementary Financial Information
For the year ended 31 December 2018

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 December 2018

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

1. CORPORATE GOVERNANCE

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

- (i) **Executive Committee** - responsible for reviewing and confirming all credit approvals. The members include the directors of the Board of the parent bank and other directors.
- (ii) **Credit Risk Management Committee** - responsible for evaluation and monitoring of lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation and Senior Managers of Credit.
- (iii) **Asset and Liability Management Committee ("ALCO")** - responsible for managing the Group's assets and liabilities on a functional basis. The Committee directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.
- (iv) **The Audit Committee** is an oversight body monitoring the internal control framework, risk management systems and financial reports. The Committee consists of three non-executive directors, two of whom are independent non-executives.
- (v) **Remuneration Committee**

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

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

- (a) Simplicity in providing appropriate compensation to its employees for the services they provide to the company;
- (b) Fairness in its conduct to attract and retain employees with skills required to effectively manage the operations and growth of the business;

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 December 2018

1. CORPORATE GOVERNANCE (continued)

(v) Remuneration Committee (continued)

- (c) Alignment of values in the management of its remuneration system to motivate employees to perform in the best interests of the Company and its stakeholders;
- (d) Transparency in the appropriate level of the organisation with specific regard to the remuneration of senior management who are responsible for oversight of the business strategy, key personnel whose duties involve the assumption of material risk on behalf of the Company; and
- (e) Ensure a level of equity and consistency across its branch and subsidiaries and the Group as a whole.

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

- (a) Making recommendations to the Board of Directors in respect of remuneration packages for the Company's senior management and key personnel in cases where the approval authority for such remuneration packages rests solely with the Board;
 - (b) Ensuring that a regular, at least annual, review of the Company's remuneration system and its operations, which includes an assessment of consistency with the guidelines, is conducted independently of management;
 - (c) Review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
 - (d) Review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and
 - (e) To ensure that no director (executive or non-executive) or any of his/her associates is involved in deciding his/her own remuneration.
- (vi) **Managers' Committee** - responsible for managing day to day operation. The members consist of Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, all department heads and the Compliance Officer.

The terms of reference of the Committees, together with all the policies within the corporate governance scheme, are subject to review as necessary in order to cope with the latest development in the Banking industry as well as other changes in the regulatory environment. In addition, the Company is committed to maintain high standards of corporate governance practices and has fully complied with the module set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority on 3 August 2012 throughout the financial year ended 31 December 2018.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 December 2018

2. RISK MANAGEMENT

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

(i) Capital management

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

(ii) Operational and legal risk

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

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

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

(iii) Reputation risk

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

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

3. SEGMENTAL INFORMATION

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

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**FOR THE YEAR ENDED 31 December 2018****3. SEGMENTAL INFORMATION (continued)**

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

	2018 % of Gross advances covered by collateral	2017 % of Gross advances covered by collateral
HK\$'000	HK\$'000	
Loans for use in Hong Kong		
Manufacturing	250,137 99.52%	214,443 99.44%
Building & construction		
Property investment	240,048 100%	270,957 100%
Civil engineering works	3,490 100%	3,852 100%
Wholesale and retail trade	266,887 99.85%	269,021 99.78%
Transport and transport equipment	19,621 100%	20,837 100%
Hotels, boarding houses & catering	32,500 100%	7,685 100%
Information technology	51,239 100%	35,307 100%
Electricity and gas	- -	- -
Non-stockbroking companies & individuals		
For the purchase of shares – others	53,646 100%	55,080 100%
Others	7,540 100%	- -
Professional & private Individuals		
Loans for the purchase of other residential properties	109,293 100%	106,508 100%
Loans for other business purpose	11,167 100%	14,787 100%
Loans for other private purpose	56,392 99.80%	65,062 99.79%
Trade finance	25,448 100%	17,338 100%
Loans and advances for use outside Hong Kong		
Non-bank Mainland China exposures		
Companies and individuals outside China where the credit is granted for use in China	18,000 100%	- -
Loans for use outside Hong Kong	<u>33,804</u> 100%	<u>36,963</u> 100%
	<u>1,179,212</u>	<u>1,117,840</u>

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

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FOR THE YEAR ENDED 31 December 2018

3. SEGMENTAL INFORMATION (continued)

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

Advances to customers over 10% of the total advances by industry sectors as at 31 December 2018

	Gross loans and advances HK\$'000	Impairment allowances Stage 1 HK\$'000	Impairment allowances Stage 3 HK\$'000	New impairment allowances charged to profit or loss HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Manufacturing	250,137	59	-	41	-	248,937	99.52%	-	-
Property investment	240,048	51	-	39	-	240,047	100%	-	-
Wholesale and retail trade	266,887	65	480	523	-	266,487	99.85%	-	2,000

Advances to customers over 10% of the total advances by industry sectors as at 31 December 2017

	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances charged to profit or loss HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000
Manufacturing	214,443	364	-	-	-	213,243	99.44%	-	-
Property investment	270,957	460	-	-	-	270,957	100%	-	-
Wholesale and retail trade	269,021	456	-	-	-	268,421	99.78%	-	-

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FOR THE YEAR ENDED 31 December 2018

3. SEGMENTAL INFORMATION (continued)**Non-Bank Mainland China Exposures**

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

As at 31 December 2018

Types of Counterparties	On-balance sheet exposure HK\$ '000	Off-balance sheet exposure HK\$ '000	Total exposures HK\$ '000
PRC nationals residing outside Mainland China or entities incorporated outside mainland China where the credit is granted for use in Mainland China	18,047	-	18,047
Total	18,047	-	18,047
Total assets after provision	1,733,117		
On-balance sheet exposures as percentage of total assets	1.04%		

As at 31 December 2017

Types of Counterparties	On-balance sheet exposure HK\$ '000	Off-balance sheet exposure HK\$ '000	Total exposures HK\$ '000
PRC nationals residing outside Mainland China or entities incorporated outside mainland China where the credit is granted for use in Mainland China	-	-	-
Total	-	-	-
Total assets after provision	1,658,584		
On-balance sheet exposures as percentage of total assets	0%		

4. Pillar 3 Regulatory Disclosures

The Pillar 3 regulatory disclosures for 2018 which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the HKMA can be found under the "Regulatory Disclosures" Section on the company's website at www.abchkl.com.hk.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 December 2018

5. LIQUIDITY INFORMATION

	2018 %	2017 %
Average liquidity maintenance ratio		
– First quarter	45.21	44.59
– Second quarter	46.76	47.23
– Third quarter	45.02	47.12
– Fourth quarter	44.23	44.66

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

6. LEVERAGE RATIO

	2018 %	2017 %
Leverage ratio	23.60	23.09

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

7. COUNTERCYCLICAL CAPITAL BUFFER RATIO

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

The Company has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 1.875%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2016.

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

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK\$ '000	CCyB ratio %	CCyB amount HK\$ '000
As at 31 December 2018				
Hong Kong	1.875	1,107,196		
Others	0	0		
Total		1,107,196	1.875	20,760

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FOR THE YEAR ENDED 31 December 2018

7. COUNTERCYCLICAL CAPITAL BUFFER RATIO (continued)

Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
	%	HK\$ '000	%	HK\$ '000
As at 31 December 2017				
Hong Kong	1.25	1,045,124		
Others	0	0		
Total		1,045,124	1.25	13,064

8. CAPITAL CONSERVATION BUFFER RATIO

Under section 3M of the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Company's buffer level is 1.875% for 2018 and 1.25% for 2017.

9. FOREIGN CURRENCY POSITION

2018

	AUD HK\$'000	CAD HK\$'000	EUR HK\$'000	GBP HK\$'000	JPY HK\$'000	NZD HK\$'000	SGD HK\$'000	USD HK\$'000
Spot assets	19,420	9,636	5,431	9,787	284	4,232	-	376,497
Spot liabilities	(19,241)	(9,625)	(6,249)	(9,940)	(248)	(3,894)	-	(861,884)
Forward purchased	-	-	1,334	-	-	-	-	486,867
Forward sales	-	-	(1,182)	-	-	-	-	(1,337)
Net long/(short) position	179	11	(666)	(153)	36	338	-	143

2017

	AUD HK\$'000	CAD HK\$'000	EUR HK\$'000	GBP HK\$'000	JPY HK\$'000	NZD HK\$'000	SGD HK\$'000	USD HK\$'000
Spot assets	4,968	10,479	3,281	10,329	631	4,388	-	348,807
Spot liabilities	(4,501)	(10,413)	(6,520)	(10,527)	(242)	(4,061)	-	(785,812)
Forward purchased	-	-	3,223	-	541	-	-	438,692
Forward sales	-	-	-	-	(895)	-	-	(3,751)
Net long/(short) position	487	66	(16)	(198)	35	327	-	(2,064)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 December 2018

10. OVERDUE AND RESCHEDULED ASSETS

	2018 HK\$'000	2017 HK\$'000	As a percentage of total advances	
			2018	2017
Advances to customers overdue for more than 3 months and up to 6 months	4,495	-	0.39%	0.00%
more than 6 months and up to 1 year	-	-	0.00%	0.00%
over 1 year	-	-	0.00%	0.00%
Rescheduled advances to customers	-	-	0.00%	0.00%
	<u>4,495</u>	<u>-</u>		
Fair value of collateral held in respect of the overdue advances	<u>6,400</u>	<u>-</u>		
Individual impairment allowance made in respect of the overdue advances	<u>480</u>	<u>-</u>		

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

	2018 HK\$'000	2017 HK\$'000
Advances to customers overdue for more than 3 months	4,495	-
Rescheduled advances to customers	-	-
	<u>4,495</u>	<u>-</u>
Add: Impaired advances which are not overdue or rescheduled	110	134
Advances which are overdue less than 3 months but not impaired	<u>2,202</u>	<u>15,049</u>
Total overdue advances and impaired advances	<u>6,807</u>	<u>15,183</u>

11. CAPITAL DISCLOSURES

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

The capital ratios of the Company as at 31 December 2018 and 31 December 2017 and reported to the Hong Kong Monetary Authority are as follows:

	2018	2017
CET1 capital ratio	<u>28.05%</u>	<u>28.19%</u>
Tier 1 capital ratio	<u>28.62%</u>	<u>28.95%</u>
Total capital ratio	<u>31.07%</u>	<u>31.20%</u>

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11. CAPITAL DISCLOSURES (continued)

The components of the Company's total capital base after deductions used in the calculation of the above capital ratios as at 31 December 2018 and 31 December 2017 and reported to the Hong Kong Monetary Authority are as follows:

	2018 HK\$'000	2017 HK\$'000
Category I – Common equity Tier 1 ("CET1") Capital		
CET1 capital instruments	165,000	165,000
Retained earnings	285,939	255,049
Disclosed reserves	7,000	7,000
CET1 Capital before deductions	457,939	427,049
CET1 Capital: regulatory deductions		
Cumulative fair value gains arising from the revaluation of land and buildings	53,555	43,555
Deferred tax assets in excess of deferred tax liabilities	-	-
Total regulatory deductions to CET1 Capital	53,555	43,555
CET1 Capital after deductions	404,384	383,494
Category II – Additional Tier 1 Capital		
Additional Tier 1 capital instruments issued and share premium if any (subject to phase out arrangements from AT1 Capital)	8,280	10,350
Additional Tier 1 Capital	8,280	10,350
Tier 1 Capital after deductions	412,664	393,844
Category III – Tier 2 Capital		
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	24,100	19,600
Collective provisions	11,199	10,997
Tier 2 Capital	35,299	30,597
Total Capital Base	447,963	424,441

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" will be available on the company's website at www.abchkl.com.hk on 30 April 2019 and include the following information :

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

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**FOR THE YEAR ENDED 31 December 2018****12. INTERNATIONAL CLAIMS**

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

	Non-bank Private Sector					
	Banks HK\$'000	Official Sector HK\$'000	Non-bank Financial Institutions HK\$'000	Non-financial Private Sector HK\$'000	Others HK\$'000	Total HK\$'000
As at 31 December 2018						
<u>Counterparty country/ jurisdiction</u>						
Developed countries	179,751	-	-	-	-	179,751
Offshore countries	254,264	-	-	1,185,609	-	1,439,873
- of which: Hong Kong	190,106	-	-	1,120,884	-	1,310,990
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	-	-	-	-	-	-
Developing Asia and Pacific	7,875	-	-	-	-	7,875
International Organisations	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Total	441,890	-	-	1,185,609	-	1,627,499

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FOR THE YEAR ENDED 31 December 2018

12. INTERNATIONAL CLAIMS (continued)

	<u>Non-bank Private Sector</u>					
	<u>Banks</u> <u>HK\$'000</u>	<u>Official</u> <u>Sector</u> <u>HK\$'000</u>	<u>Non-bank</u> <u>Financial</u> <u>Institutions</u> <u>HK\$'000</u>	<u>Non-financial</u> <u>Private</u> <u>Sector</u> <u>HK\$'000</u>	<u>Others</u> <u>HK\$'000</u>	<u>Total</u> <u>HK\$'000</u>
As at 31 December 2017						
<u>Counterparty country/</u> <u>jurisdiction</u>						
Developed countries	203,439	18	-	-	-	203,457
Offshore countries	224,082	58	-	1,125,797	-	1,349,937
- of which: Hong Kong	168,951	58	-	1,057,811	-	1,226,820
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	-	-	-	-	-	-
Developing Asia and Pacific	7,829	-	-	-	-	7,829
International Organisations	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Total	435,350	76	-	1,125,797	-	1,561,223

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 December 2018

13. SENIOR EXECUTIVE COMPENSATION

The Remuneration Committee annually reviews and Board of Directors approves the remuneration packages of the Chief Executive, members of the senior management and key personnel. The aggregate payouts for these 6 (2017: 6) senior executives for 2018 are shown in the table below in accordance with the disclosure requirement of 3.2.3 of the "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority in March 2010.

Fixed Remuneration Salaries		Variable Remuneration Cash Bonus		Award of Deferred Variable Remuneration	
2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
10,988	10,232	Nil	Nil	Nil	Nil

Included in the above table of the senior executives compensation were the emoluments of 1 director (2017: 1 director). The directors' emoluments have been included in Note 9 to the financial statements.

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

14. STATEMENT OF COMPLIANCE

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