上海銀行(香港)
Bank of Shanghai (Hong Kong)

BANK OF SHANGHAI (HONG KONG) LIMITED

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

BANK OF SHANGHAI (HONG KONG) LIMITED
YEAR ENDED 31 DECEMBER 2019

CONTENTS

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2019.

Principal place of business

Bank of Shanghai (Hong Kong) Limited (the Company) is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 34th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong.

Principal activities

The principal activities of the Company are to provide financial services to corporations and individuals. The principal activities and other particulars of the Company's subsidiaries are stated in Note 19 to the financial statements.

Transfer to reserves

The profit attributable to shareholders of HK$308,294,000 (2018: HK$218,129,000) has been transferred to reserves. Other movements in reserves are shown in the consolidated statement of changes in equity on page 10.

Recommended dividend

The directors do not recommend payment of a final dividend for the financial year ended 31 December 2019 (2018: Nil).

Share capital

Details of the movements in share capital of the Company are set out in Note 28(a) to the financial statements. There was no shares movement during the year.

Charitable donations

No charitable donations was made by the Group during the financial year (2018: Nil).

REPORT OF THE DIRECTORS (CONTINUED)

Directors

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

Non-Executive Director and Chairman
Huang Tao

Non-Executive Director

Li Xiaohong	(appointed on 11 January 2019)
Lin Liqun	(appointed on 1 August 2019)
Jin Yu	(resigned on 1 February 2019)

Executive Director
Zhang Xuhong

Independent Non-Executive Director
Tsien James Steed
Cheng Kwok Kin, Paul
Fong Wo, Felix

Directors of subsidiaries

The names of directors who had served on the board of the Company's subsidiaries during the financial year and up to the date of this report were:

Cai, Weisong	
Chan, Ho Sun Sunny	
Chen, Che	
Chen, Tao	
Du, Jian	
Guo, Chuhua	
Huang, Tao	
Li, Xiaohong	
Lin, Liqun	
Ma, Yijia	
Peng, Xiaoxuan	(appointed on 19 November 2019)
Wang, Jian	
Wu, Jun	
Yang, Chen	
Zhang, Cui E	(appointed on 21 February 2019)
Zhang Xuhong	
Han, Chia Lin	(resigned on 26 April 2019)

There being no provision in the Company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

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

REPORT OF THE DIRECTORS (CONTINUED)

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or an entity connected with a director had a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisting during the year.

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Auditors

The financial statements have been audited by KPMG who will retire at the forthcoming Annual General Meeting. To align with the proposed appointment of PricewaterhouseCoopers (PwC) as auditor by Bank of Shanghai Co., Limited, the Board will propose the appointment of PwC as the Company's auditor in the forthcoming Annual General Meeting for the shareholder's approval.

By order of the board

Zhang Xuhong
Director
Hong Kong, 28 April 2020

Independent auditor's report to the members of
Bank of Shanghai (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of Shanghai (Hong Kong) Limited and its subsidiaries (the Group) set out on pages 7 to 89, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

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

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the members of
Bank of Shanghai (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the audit committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent auditor's report to the members of
Bank of Shanghai (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(EXPRESSED IN HONG KONG DOLLARS)

	Note	2019 $'000	2018 $'000 (note)
Interest income	6	1,340,044	1,137,251
Interest expense	6	(714,457)	(619,037)
Net interest income		625,587	518,214
Fee and commission income	7	188,874	150,695
Fee and commission expense	7	(19,275)	(16,022)
Net fee and commission income		169,599	134,673
Net income from financial instruments measured at fair value	8	3,668	9,770
Net income from investment securities	13(b)	13,672	1,310
Other operating income		728	4,335
Total operating income		813,254	668,302
Operating expenses	9	(275,696)	(222,817)
Operating profit before impairment losses		537,558	445,485
Allowances for credit and other losses	10	(167,217)	(176,812)
Profit before taxation		370,341	268,673
Taxation	12(a)	(62,047)	(50,544)
Profit for the year		308,294	218,129
Other comprehensive income for the year, net of tax	13		
Item that may be reclassified subsequently to profit or loss			
Foreign currency translation differences for Mainland China subsidiaries	13(a)	(5,239)	(15,539)
Net movement in revaluation reserve	13(b)	223,773	(132,669)
Total comprehensive income for the year		526,828	69,921

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(b).

The notes on pages 12 to 89 form part of these financial statements.

BANK OF SHANGHAI (HONG KONG) LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2019 $'000	2018 $'000 (note)
Assets			
Cash and balances with banks and central bank	14	1,105,547	1,394,837
Placements with and advances to banks	15	2,574,294	2,592,414
Financial assets at fair value through profit and loss		520,688	287,024
Derivative financial assets	30	31,132	32,787
Loans and advances to customers	16(a)	16,569,338	14,830,120
Investment securities	17	11,748,563	9,118,004
Interests in associates	18	224	228
Property and equipments	20	68,324	16,437
Intangible assets	21	3,683	5,134
Current tax recoverable	24(a)	–	2,000
Deferred tax assets	24(b)	35,144	54,567
Other assets	22	284,491	256,907
TOTAL ASSETS		32,941,428	28,590,459
Liabilities			
Deposits from customers	23	12,374,436	9,503,353
Deposits from banks		7,721,451	4,981,828
Trading liabilities		111,765	8,159
Financial assets sold under repurchase agreement		550,067	–
Derivative financial liabilities	30	22,028	48,430
Certificates of deposit and other debt securities issued	25	6,446,953	9,126,264
Current tax payable	24(a)	97,445	42,275
Lease liabilities	26	57,496	–
Other liabilities	27	550,017	397,208
TOTAL LIABILITIES		27,931,658	24,107,517

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2019
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2019 $'000	2018 $'000 (note)
Capital and reserves	28		
Share capital	28(a)	4,000,000	4,000,000
Retained profits		941,077	626,045
Other reserves		68,693	(143,103)
TOTAL EQUITY		5,009,770	4,482,942
TOTAL EQUITY AND LIABILITIES		32,941,428	28,590,459

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(b).

Approved and authorised for issue by the board of directors on 28 April 2020

Zhang, Xuhong	)	Directors
Cheng, Kwok Kin, Paul	)	

The notes on pages 12 to 89 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(EXPRESSED IN HONG KONG DOLLARS)

	Note	Share capital $'000	Retained profits $'000 (note)	Revaluation reserve $'000	Regulatory reserve $'000	Exchange reserve $'000	Total $'000
Balance as at 1 January 2018		4,000,000	306,261	(5,005)	108,393	3,372	4,413,021
Profit for the year		–	218,129	–	–	–	218,129
Other comprehensive income	13(a)	–	–	(132,669)	–	(15,539)	(148,208)
Total comprehensive income		–	218,129	(132,669)	–	(15,539)	69,921
Transfer from regulatory reserve	28(d)	–	101,655	–	(101,655)	–	–
Balance at 31 December 2018 and 1 January 2019		4,000,000	626,045	(137,674)	6,738	(12,167)	4,482,942
Profit for the year		–	308,294	–	–	–	308,294
Other comprehensive income	13(a)	–	–	223,773	–	(5,239)	218,534
Total comprehensive income		–	308,294	223,773	–	(5,239)	526,828
Transfer from regulatory reserve	28(d)	–	6,738	–	(6,738)	–	–
Balance at 31 December 2019		4,000,000	941,077	86,099	–	(17,406)	5,009,770

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(b).

The notes on pages 12 to 89 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(EXPRESSED IN HONG KONG DOLLARS)

	Note	2019 $'000	2018 $'000 (note)
Net cash inflow from operating activities	33(a)	1,757,040	1,209,995
Investing activities			
Proceeds from sales and redemption of investment securities		6,646,058	7,450,905
Purchases of property and equipments and intangible assets	20, 21	(4,190)	(5,548)
Purchase of investment securities		(8,698,370)	(13,370,389)
Purchase of interests in associates	18	–	(228)
Sale of interests in associates	18	–	1,199
Interest received from investment securities		404,185	275,460
Net cash outflow from investing activities		(1,652,317)	(5,648,601)
Financing activity	33(d)		
Proceeds from the issuance of other debt securities		–	3,894,179
Redemption of other debt securities		–	(781,945)
Interest paid for the other debt securities		(142,562)	(82,952)
(Repayment of)/proceeds from short-term borrowings		(50,638)	102,123
Interest paid for short-term borrowings		(1,835)	(2,241)
Capital element of lease rental paid		(24,551)	–
Interest element of lease rental paid		(2,499)	–
Proceeds from other borrowings		193,129	–
Repayment of other borrowings		(193,129)	–
Interest paid for other borrowings		(9,931)	–
Net cash inflow from financing activities		(232,016)	3,129,164
Decrease in cash and cash equivalents		(127,293)	(1,309,442)
Cash and cash equivalents at 1 January		4,512,899	5,822,341
Cash and cash equivalents at 31 December	33(b)	4,385,606	4,512,899

Note: The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(b).

The notes on pages 12 to 89 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN HONG KONG DOLLARS)

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) General information

The principal activities of the Group are to provide financial services to corporations and individuals.

Founded in 2013, Bank of Shanghai (Hong Kong) Limited (the Company), a wholly owned subsidiary of Bank of Shanghai Co., Limited, is a restricted license bank incorporated and domiciled in Hong Kong with the registered office and principal place of business at 34th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong. The Company and its wholly owned subsidiary, BOSC International Company Limited (the BOSCI) (together the Group), a licensed corporation in Hong Kong under Securities and Futures Ordinance, provide banking, financial and related activities to corporate and individual clients.

Principal activities and other particulars of the Group's subsidiaries are set out in Note 19 to the financial statements.

For regulatory reporting purposes, the Company is required to compute its capital adequacy ratios and leverage ratio on unconsolidated basis that is different from the basis of consolidation for accounting purposes. The basis is set out in the Note 3(a) to the Regulatory Disclosure Statements. The disclosures of capital adequacy ratios, leverage ratio and liquidity maintenance ratio as required by Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website http://www.bosc-hk.com/en/Channel/xinxi.html

(b) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(c) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together the Group).

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation (continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investments in debt and equity securities (see note 1(f));

– derivative financial instruments (see note 1(f); and

– trading liabilities (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, any impairment losses for the year and the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments

Initial recognition

Purchases and sales of all financial assets are recognised on the date that the Group enters into the contractual arrangements with counterparties. When the Group acts as a trustee or in a fiduciary capacity for assets it does not directly control or benefit from, except for the trust accounts for client monies (note 1(l)), the assets and the corresponding income belonging to a customer are excluded from the financial statements. Financial assets are initially recognised at fair value, which is generally the transaction price.

Classification and subsequent measurement

Financial assets are categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

Contractual cash flow characteristic mainly refer to whether the assets constitute a “basic lending arrangement” where their contractual cash flows represent solely payments of principal and interest (SPPI).

- Debt instruments are measured at amortised cost when they are in a “hold to collect” (HTC) business model and have contractual cash flows that are SPPI in nature. The objective of a HTC business model is to collect contractual principal and interest cash flows. Sales are incidental to the objective and expected to be either insignificant or infrequent.

- Debt instruments are measured at fair value through other comprehensive income (FVOCI) when they are in a “hold to collect & sell” (HTC&S) business model and have cash flows that are SPPI in nature. Both the collection of contractual cash flows and sales are integral to achieving the objective of the HTC&S business model.

  Unrealised gains or losses on FVOCI debt instruments are recorded in other comprehensive income and accumulated in FVOCI reserves. When they are sold, the accumulated fair value adjustments in FVOCI are reclassified to profit or loss as “Net income from investment securities”.

- Debt instruments are measured at fair value through profit or loss (FVPL) when:

  i. the assets are not SPPI in nature;

  ii. the assets are not part of a “HTC” or “HTC & S” business model; or

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

iii. the assets are designated at FVPL so as to eliminate or significantly reduce the measurement or recognition inconsistencies that would otherwise arise from measuring assets or liabilities on different bases.

Realised and unrealised gains or losses on FVPL financial assets, except interest income, are taken to "Net income from financial instruments measured at fair value" in the Statement of Comprehensive Income in the period they arise.

- Subsequent changes in fair value of non-trading equity instruments can be taken through profit or loss or other comprehensive income, as elected. Other than dividend income, gains and losses on FVOCI equity instruments are recorded in other comprehensive income and accumulated in FVOCI reserves, and are not reclassified to profit or loss upon derecognition.

- Derivatives (including derivatives embedded in financial liabilities but separated for accounting purposes) are also classified as held for trading unless they are designated as hedging instruments. Derivatives are classified as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives other than those designated as hedging instruments in cash flow or net investment hedges are included in "Net income from financial instruments measured at fair value".

Reclassification of financial assets

Reclassification of financial assets are prohibited unless the Group changes its business model for managing financial assets. In practice, this is expected to be infrequent.

Determination of fair value

The fair value of financial asset is the price that would be received if the asset is sold in an orderly transaction between market participants at the measurement date. Fair value is generally estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Where applicable, a valuation reserve or pricing adjustment is applied to arrive at the fair value. The determination of fair value is considered a significant accounting policy for the Group and further details are disclosed in Note 5(e) on fair value measurements.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

Offsetting

Financial assets and liabilities are presented in net when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle them on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when they have been transferred together with substantially all risks and rewards of ownership.

The Group enters into certain transactions where it transfers financial assets recognised on its statement of financial position but retains either all or a portion of the risks and rewards of the transferred financial assets. In such cases, the transferred financial assets are not derecognised from the statement of financial position. This also includes certain transactions where control over the financial asset is retained.

(g) Right-of-use assets, property and equipments

The following items of right-of-use assets (RoU), property and equipment are stated at cost less accumulated depredation and impairment losses (see note 1(k)):

– RoU assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying equipment (see note 1(i)).

Gains or losses arising from the retirement or disposal of RoU asset or item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Right-of-use assets, property and equipments (continued)

Depreciation is calculated to write off the cost or valuation of items of RoU assets and property and equipments, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

– Leasehold improvements	Shorter of the lease term or their estimated useful lives to the Group, being no more than 50 years after the date of completion
– Furniture, computer and other equipments	2 – 5 years
– Motor vehicles	4 – 5 years

Where parts of an item of RoU asset or property and equipments have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Intangible assets included software and club membership. Intangible assets are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see Note 1(k)).

Amortisation of intangible assets with finite useful lives is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follow:

– Software	1 – 5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to definite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Leases asset

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the group are primarily office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is loacted, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(g) and 1(k)).

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Leases asset (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses were accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collaterals through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrowers, repossessed assets are reported in “Other assets”. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the consolidated statement of financial position. They are not depreciated or amortised.

(k) Credit losses and impairment of assets

Impairment for financial assets

The Group recognises loss allowance for expected credit loss (ECL) on all financial assets, except for financial assets classified or designated as FVPL and equity securities, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn loan commitments.

The ECL is measured using an approach which classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile. A financial asset is classified under:

- Stage 1, if it was not credit-impaired upon origination, and there has not been a significant increase in its credit risk. The ECL of a Stage 1 financial asset will be the credit loss that is expected to result from a default occurring over the next 12 months;

- Stage 2, if it was not credit-impaired upon origination but has subsequently experienced a significant increase in credit risk. The ECL of a Stage 2 financial asset will be the credit loss that is expected over the expected remaining life of the financial asset;

- Stage 3, if it has been credit-impaired with objective evidence of default. The assessed ECL for a Stage 3 financial asset is also the credit loss that is expected over the expected remaining life of the financial asset.

The impairment requirements of HKFRS 9 require management judgements, estimates and assumptions, particularly in the areas discussed below.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessments of future economic conditions. The measurement of ECL is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted using the Effective Interest Rate to the reporting date.

Expected Life

When measuring the ECL for Stage 2 assets, cashflows over the expected remaining life of the financial asset are considered. For most financial instruments, this is the same as the remaining contractual life which represents the maximum contractual period over which the Group is exposed to the credit risk of the customers.

Assessment of significant increase in credit risk

The analysis underpinning the assessment of whether a financial asset has experienced a significant increase in credit risk since origination is multi-factor in nature, with a range of qualitative and quantitative parameters taken into consideration.

Financial assets are deemed to have experienced a significant increase in credit risk when: (1) observed changes in the probability of default, as measured in the downgrade in internal credit risk rating for each obligor between initial recognition and reporting date, are more than pre-specified thresholds; (2) exposures are placed on certain categories of internal credit for closer scrutiny of developing credit issues;

In any event, all exposures that are more than 30 days past due are considered to have demonstrated a significant increase in credit risk and are classified as Stage 2.

A Stage 2 exposure can be upgraded to Stage 1 if it is assessed that there is assurance of a sustainable improvement in its credit profile.

Definition of default for credit-impaired financial assets

Exposures are classified as Stage 3 if deemed to be credit-impaired or have suffered objective evidence of default as at the reporting date. The definition of default that is applied upon adoption of HKFRS 9 is consistent with that specified in the Basel regulatory capital rules.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

Definition of default for credit-impaired financial assets (continued)

The Group assesses whether there is evidence that a financial asset or a group of financial assets is impaired at the end of each reporting period, The Group carries out regular and systematic reviews of all credit facilities extended to customers. The criteria that the Group uses to determine whether there is evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor, including breach of covenants and/ or financial conditions;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Granting of a concession to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- High probability of bankruptcy or other financial reorganisation of the borrower.

In any event, all exposures that are 90 days past due or more are classified under Stage 3.

A Stage 3 exposure can be upgraded to Stage 2 if there are reasonable grounds to conclude that the obligor is able to service future principal and interest payments on the credit facility in accordance with the restructured terms.

Management overlay and judgements

Additional considerations that are assessed to have been inadequately addressed in the ECL model estimates are addressed through the application of a management overlay framework. This incorporates considerations such as: (1) potential loss assessments on watchlist cases, based on expert credit judgement; (2) observed model limitations; and (3) thematic events.

ECL adjustments arising from the exercise of the management overlay are subject to a robust review and governance process.

Credit judgment is an integral part of ECL quantification in view of the close integration with the credit risk management process of the Group. This includes, for example, risk rating assignment, watchlist process, as well as input into the assessment of significant increase in credit risk, expected remaining life and macroeconomic forecast.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Credit losses and impairment of assets (continued)

Impairment for non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the property and equipments and intangible assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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 time value of money and the risks specific to the asset.

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. The carrying amount of the asset is adjusted to an extent that the carrying value of the asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and central bank, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with banks and central bank, placements with banks and investment securities.

A subsidiary of the Company maintains trust accounts with authorized institutions to clients' monies arising from its normal course of the regulated business activities. The Group has classified the balance within cash and bank balances in the statement of financial position and recognised the corresponding payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies.

(m) Employee benefits

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

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    – the same taxable entity; or

    – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Loan commitments, letters of credit, financial guarantees and provisions

(i) Loan commitments

Loan commitments are not financial instruments and are not recognised on statement of financial position but are disclosed as off-balance sheet in accordance with HKAS 37. They form part of the disclosures in Note 31. Upon a loan draw-down, the amount of the loan is accounted for as described in Note 1(f).

(ii) Letters of credit

Letters of credit are recorded off-balance sheet as contingent liabilities upon issuance, and corresponding payables to the beneficiaries and receivables from the applicants are recognised on-balance sheet upon acceptance of the underlying documents.

(iii) Financial guarantees

A financial guarantee is initially recognised in the financial statements at fair value on the date the guarantee is given. Financial guarantees are subsequently measured at the higher of:

- The amount of the ECL (note 1(k)), and
- The unamortised portion of the fees that were received on initial recognition. The fee is recognised over time as income in accordance with the principles in Note 1(p).

Off-balance sheet credit exposures are managed for credit risk in the same manner as financial assets.

(iv) Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of asset events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the profit or loss on a time proportion basis using the effective interest method as prescribed by HKFRSs.

The calculation includes significant fees and transaction costs that are an integral to the effective interest rate, as well as premiums or discounts.

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

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of products and services provided to its customers.

Fee and commission income are recognised when the Group has satisfied its performance obligation in providing the promised products and services to the customer, and are recognised based on contractual rates agreed with customers, net of expected waivers based on historical experience, and net of expenses directly related to it. The Group generally satisfies its performance obligation and recognises the fee and commission income on the following basis:

- Transaction-based fee and commission income is recognised on the completion of the transaction. Such fees include underwriting fee, brokerage fees, and fees related to the completion of corporate finance transactions.

- For a service that is provided over a period of time, fee and commission income is recognised on time proportion basis over the period during which the related service is provided or credit risk is undertaken. This basis of recognition most appropriately reflects the nature and pattern of provision of these services to the customers over time. Fees for these services can be billed to customers in advance or periodically over time. Such fees include the income from issuance of financial guarantees and loan agency service fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

(ii) Fee and commission income (continued)

The Group does not provide any significant credit terms to customers for the above products and services.

Directly related expenses typically include brokerage fees and commission paid, but do not include expenses for services delivered over a period (such as service contracts) and other expenses that are not specifically related to fee and commission income transactions.

(iii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 16, *Leases*

– Amendments to HKAS 28 *Long-term interest in associates and joint ventures*

– Annual improvement to HKFRS 2015-2017 cycle

– HK (IFRIC) 23, *Uncertainty over income tax treatment*

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (short-term leases) and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) New definition of a lease (continued)

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalized leases are primarily in relation to property and equipments.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.12%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

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2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Lessee accounting and transitional impact (continued)

The following table reconciles the commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 $'000
Operating lease commitments at 31 December 2018	66,617
Less: total future interest expenses	(2,773)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	63,844

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Lessee accounting and transitional impact (continued)

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipments' and presents lease liabilities in 'lease liabilities' in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position.

	Carrying amount at 31 December 2018 $'000	Capitalisation of operating lease contracts $'000	Carrying amount at 1 January 2019 $'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property and equipments (note 20)	16,437	63,844	80,281
Total assets	**28,590,459**	**63,844**	**28,654,303**
Lease liabilities	–	63,844	63,844
Total liabilities	**24,107,517**	**63,844**	**24,171,361**
Net assets	**4,482,942**	**–**	**4,482,942**

3 CRITICAL ACCOUNTING ESTIMATES

The Group's accounting policies and use of estimates are integral to the reported results. Certain accounting estimates require management's judgement in determining the appropriate methodology for valuation of assets and liabilities. Procedures are in place to ensure that methodologies are reviewed and revised as appropriate. The Group believes its estimates for determining the valuation of its financial assets and liabilities are appropriate.

The following is a brief description of the Group's critical accounting estimates that involve management's valuation judgement.

3 CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(a) Impairment of financial assets

It is the Group's policy to recognise, through charges against profit, allowances in respect of estimated and inherent credit losses in its portfolio as described in Note 1(k).

ECLs are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessments of future economic conditions, which will necessarily involve the use of judgement.

In estimating specific allowances under HKFRS 9, the Group assesses the gap between borrowers' obligations to the Group and their repayment ability. The assessment takes into account various factors, including the economic or business outlook, the future profitability of the borrowers and the liquidation value of collateral. Such assessment requires considerable judgement.

The general allowances under HKFRS 9 are determined after taking into account historical data and management's assessment of the current economic and credit environment.

(b) Fair value of financial instruments

The majority of the Group's financial instruments reported at fair value are based on quoted and observable market prices or on internally developed models that are based on independently sourced market parameters.

The fair value of financial instruments without an observable market price in a liquid market may be determined using valuation models. The choice of model requires significant judgement for complex products.

Policies and procedures have been established to facilitate the exercise of judgement in determining the risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors used in the valuation process.

Please refer to Note 5(e) for details on valuation process and the fair value hierarchy of the Group's financial instruments measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

4 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 $'000	2018 $'000 (note)
Assets			
Cash and balances with banks and central bank		947,396	1,172,010
Placements with and advances to banks		2,574,294	2,592,410
Financial assets at fair value through profit and loss		143,615	19,192
Derivative financial assets		31,132	32,787
Loans and advances to customers		16,569,338	14,830,120
Investment securities		7,141,979	4,811,895
Investment in subsidiaries	19	780,000	780,000
Property and equipments		49,505	12,247
Intangible assets		3,642	5,038
Deferred tax assets		29,120	32,012
Other assets		212,090	178,007
TOTAL ASSETS		28,482,111	24,465,718
Liabilities			
Deposits from customers		12,406,035	9,523,480
Deposits from banks		7,721,451	4,981,828
Financial assets sold under repurchase agreement		550,067	–
Derivative financial liabilities		22,028	48,430
Certificates of deposit issued		2,560,568	5,227,536
Current tax payable		52,624	16,911
Lease liabilities		42,311	–
Other liabilities		349,274	168,494
Total liabilities		23,704,358	19,966,679
Share capital and reserves	28(b)		
Share capital		4,000,000	4,000,000
Retained profits		740,381	529,121
Other reserves		37,372	(30,082)
Total equity		4,777,753	4,499,039
TOTAL EQUITY AND LIABILITIES		28,482,111	24,465,718

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(b).

Approved and authorised for issue by the board of directors on 28 April 2020

Zhang, Xuhong	)	
	)	Directors
Cheng, Kwok Kin Paul	)	

5 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial and operational risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The most important types of financial risks are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate and price risk.

Taking risk is core to the financial business, and the financial and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks so as to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to cope with changes in markets, products and industry best practice.

Risk management functions are carried out by the specialised committees and the functional departments under the oversight of the Board of Directors. The Board provides guiding principles and directives for overall risk management including necessary policies covering the important risks as described below.

The Group has adopted a "Three Lines of Defense" risk management structure. The first line of defense comprises the Bank's business units, which are responsible for the management of the risks that they incur in the course of their activities. The Risk Management Department and Compliance Department provide independent oversight over the risk takers as the second line of defense. Reporting directly to the Audit Committee, the Group's Internal Audit Department serves as the third line of defense.

The Board, through Audit Committee, assesses the effectiveness of the Bank's risk management and internal control systems which cover all material controls, including financial, operational and compliance controls. The Bank has established an Audit Committee with specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee have included the duties set out in the Corporate Governance Policy, with appropriate modifications where necessary. The Internal Audit Department assists the Audit Committee in its oversight of the Bank's overall risk management and internal control systems by conducting periodic reviews to assess the adequacy of the Bank's risk management framework, control, and governance processes as designed by the first and second lines of defense.

Pursuant to a risk based approach, the Bank's Internal Audit Department prepares an annual audit plan to determine the extent, nature and frequency of audit assignments every year. The Internal Audit Department conducts independent reviews of control mechanism over various operations and activities according to the plan. The senior management of the Bank and regulator may also engage Internal Audit Department to conduct ad-hoc and specific reviews from time to time. Significant audit findings and the implementation status of audit recommendations are reported to the Audit Committee at least twice each year.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the potential losses caused by obligor's inability to fulfil their contractual debt obligations. It arises from lending, treasury, derivatives and other activities undertaken by the Group. Credit exposures arise principally in loans and advances and debt securities in the Group's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments.

The Group has established core procedures to foster its credit discipline in accordance with its credit policies.

The Group's approach to credit risk management focuses on monitoring and managing credit portfolios. Regular portfolio analysis is conducted to track the asset quality and determine credit underwriting strategies on an ongoing basis. The Group's exposures to individuals, counterparties and products are subject to various risk control limits which are reviewed and approved from time to time. The senior management of the Group evaluates and approves new product proposals, credit criteria for new account relationship, and sets appropriate limits. As a rule, credit quality takes precedence over opportunistic business development.

Facility requests are processed in the prescribed format, and those conforming to defined credit criteria are approved within the delegated credit approval authorities in compliance with established policies, standards and procedures. The Group's credit risk is being mitigated by taking security in secured lending transactions. Credit exceptions to established underwriting criteria must be approved by an officer with sufficient exception approval authority. Exceptions are documented, tracked and submitted to senior management for review on a regular basis.

All credit exposures are subject to stringent collection, classification and charge-off policies. In addition, the Group applies ECL model to determine the appropriate level of impairment allowances.

(i) Maximum exposure

The table below shows the maximum exposure to credit risk at the reporting date without taking account of any collaterals held or other credit enhancements. For on-balance sheet assets, the exposures shown below are based on the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities or revocable in the extent of significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities sought on these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Maximum exposure (continued)

	2019 $'000	2018 $'000
Cash and balances with banks and central bank	1,105,547	1,394,837
Placements with and advances to banks	2,574,294	2,592,414
Financial assets at fair value through profit and loss	520,688	287,024
Derivative financial assets	31,132	32,787
Loans and advances to customers	16,569,338	14,830,120
Investment securities	11,748,563	9,118,004
Interests in associates	224	228
Other assets	284,491	256,907
Financial guarantees and other credit related contingent liabilities	17,963	114,279
Loan commitments and other credit related commitments	2,895,103	1,850,622
	35,747,343	30,477,222

Credit risk mitigation, collaterals and other credit enhancement

The Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Group's direct, irrevocable and unconditional recourse to any collaterals, security or other credit enhancement provided. The table below describes the nature of collaterals held and their financial effect by class of financial asset:

Balances and placements with banks and central bank	:	These exposures are generally considered to be low risk due to the nature of the counterparties. Collaterals is generally not sought on these balances.
Derivative financial assets	:	Master netting agreements are typically used to enable the effects of derivative financial assets and liabilities with the same counterparty to be offset in case of default.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Maximum exposure (continued)

Credit risk mitigation, collaterals and other credit enhancement (continued)

Loans and advances to customers	:	These exposures are secured, partially secured or unsecured depending on the type of customers and the products offered to them. Collaterals accepted by the Group includes residential properties, commercial real estates, share listed on a recognised stock exchange, standby letter of credit issued by banks accepted by the Group, bank deposits, etc.
Contingent liabilities and commitments	:	The components and the nature of contingent liabilities and commitments are disclosed in Note 31. For commitments that are unconditionally cancellable, the Group would assess whether the credit facilities should be withdrawn whenever the Group is aware of the deterioration of borrower's credit quality. Accordingly, these commitments do not expose the Group to significant credit risk. For commitments that are not unconditionally cancellable, including letter of credit issued and other credit facilities, they are secured, partially secured or unsecured depending on the type of customers and the products offered to them.

(ii) Credit quality of loans and advances

As at 31 December 2019 and 2018, all placements with banks were neither past due nor impaired. Note 16(e) provides information on credit quality of the loans and advances to customers.

(iii) Credit quality of investment securities

As at 31 December 2019 and 2018, all investment securities were neither past due nor impaired. The following table presents an analysis of investment securities by rating agency designation at the reporting date, based on Standard and Poor's Rating Services, Moody's Investors Services or Fitch Ratings, to the respective issues of the investment securities. In the absence of such issue ratings, the ratings designated for the issuers are reported. If there are different ratings for the same securities, the securities are reported against the lowest rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit quality of investment securities (continued)

	2019 $'000	2018 $'000
AAA	186,245	–
AA+ to A-	3,933,564	2,933,611
BBB+ to BBB-	3,657,131	3,306,850
BB+ or below	3,283,166	2,720,003
Unrated	688,457	157,540
	11,748,563	9,118,004

(iv) Enforceable netting arrangements or similar agreements

For the financial assets and liabilities subject to enforceable netting arrangements or similar agreements, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis, In the absence of enforceable netting arrangements or similar agreements, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

These agreements include derivative master agreements (including the International Swaps and Derivatives Association Master Agreement), etc. The collaterals received and placed under these agreements are generally conducted under terms that are in accordance with normal market practices.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Enforceable netting arrangements or similar agreements (continued)

The tables below present details of financial instruments subject to enforceable netting arrangements and similar agreements.

As at 31 December 2019

	Gross amounts of recognised financial assets $'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position $'000	Net amounts of financial assets presented in the consolidated statement of financial position $'000	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments $'000	Cash collaterals received $'000	Net amount $'000
Derivative financial assets	31,132	–	31,132	(11,191)	(8,866)	11,075

As at 31 December 2019

	Gross amounts of recognised financial liabilities $'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position $'000	Net amounts of financial liabilities presented in the consolidated statement of financial position $'000	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments $'000	Cash collaterals pledged $'000	Net amount $'000
Derivative financial liabilities	22,028	–	22,028	(11,191)	(8,069)	2,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Enforceable netting arrangements or similar agreements (continued)

As at 31 December 2018

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collaterals received	Net amount
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial assets	32,787	–	32,787	(10,710)	(5,843)	16,234

As at 31 December 2018

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collaterals pledged	Net amount
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial liabilities	48,430	–	48,430	(10,710)	(14,649)	23,071

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk of loss on assets, liabilities and commitments arising from the net effect of changes in market rates, such as foreign exchange rates and interest rates.

The Group entered into foreign exchange, interest rate and money market transactions, primarily for the purpose of hedging, funding or deployment of surplus liquidity. Financial instruments entered into in respect of the above objectives mainly include forward foreign exchange contracts and money market transactions.

(i) Currency risk

The Group takes on exposure due to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board set limits on the level of certain foreign exchange exposures, which were managed by Treasury Department and monitored by Risk Management Department. The Group employs forward foreign currency exchange contracts, if applicable, to maintain its overall foreign currency exposure within such currency limit. The table below summarises the Group's exposures to foreign currency exchange rate risks that are recorded in the statement of financial position.

The following table indicates the currency concentration of the assets and liabilities at carrying amounts in Hong Kong dollars equivalent, categorised by original currency.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2019

	HKD $'000	USD $'000	EUR $'000	RMB $'000	Others $'000	Total $'000
Assets						
Cash and balances with banks and central bank	38,159	683,396	12,923	287,816	83,253	1,105,547
Placements with and advances to banks	579,137	1,518,387	261,789	–	214,981	2,574,294
Financial assets at fair value through profit and loss	–	143,615	–	377,073	–	520,688
Derivative financial assets	–	29,408	1,524	–	200	31,132
Loans and advances to customers	2,695,053	11,327,602	1,165,726	1,018,867	362,090	16,569,338
Investment securities	1,298,302	9,756,722	131,259	562,280	–	11,748,563
Interests in associates	–	–	–	224	–	224
Property and equipments	51,506	–	–	16,818	–	68,324
Intangible assets	3,673	–	–	10	–	3,683
Deferred tax assets	29,120	3,781	–	2,243	–	35,144
Other assets	22,144	236,024	2,478	21,966	1,879	284,491
Spot assets	4,717,094	23,698,935	1,575,699	2,287,297	662,403	32,941,428
Liabilities						
Deposits from customers	2,640,239	8,942,732	5,639	785,826	–	12,374,436
Deposits from banks	1,350,000	5,746,511	401,410	223,530	–	7,721,451
Trading liabilities	–	–	–	111,765	–	111,765
Financial assets sold under repurchase agreement	–	550,067	–	–	–	550,067
Derivative financial liabilities	–	2,519	12,266	435	6,808	22,028
Certificates of deposit and other debt securities issued	–	6,446,953	–	–	–	6,446,953
Current tax payable	80,866	2,550	–	14,029	–	97,445
Lease liabilities	42,311	–	–	15,185	–	57,496
Other liabilities	270,078	238,877	(106)	40,994	174	550,017
Spot liabilities	4,383,494	21,930,209	419,209	1,191,764	6,982	27,931,658
Net long position	333,600	1,768,726	1,156,490	1,095,533	655,421	5,009,770

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2018

	HKD $'000	USD $'000	EUR $'000	RMB $'000	Others $'000	Total $'000
Assets						
Cash and balances with banks and central bank	74,506	1,263,152	1,622	54,002	1,555	1,394,837
Placements with and advances to banks	349,526	2,106,270	–	136,618	–	2,592,414
Financial assets at fair value through profit and loss	–	19,192	–	267,832	–	287,024
Derivative financial assets	–	23,395	722	–	8,670	32,787
Loans and advances to customers	3,382,680	10,253,841	513,697	314,788	365,114	14,830,120
Investment securities	1,348,378	6,977,817	–	791,809	–	9,118,004
Interests in associates	–	–	–	228	–	228
Property and equipments	15,353	–	–	1,084	–	16,437
Intangible assets	5,123	–	–	11	–	5,134
Current tax recoverable	2,000	–	–	–	–	2,000
Deferred tax assets	32,011	22,238	–	318	–	54,567
Other assets	29,430	203,958	1,245	19,882	2,392	256,907
Spot assets	5,239,007	20,869,863	517,286	1,586,572	377,731	28,590,459
Liabilities						
Deposits from customers	3,893,683	4,912,799	5,788	691,083	–	9,503,353
Deposits from banks	1,478,000	2,560,410	–	500,918	442,500	4,981,828
Trading liabilities	–	8,159	–	–	–	8,159
Derivative financial liabilities	–	37,378	2,025	–	9,027	48,430
Certificates of deposit and other debt securities issued	1,816,228	5,465,106	–	1,844,930	–	9,126,264
Current tax payable	30,663	1,205	–	10,407	–	42,275
Other liabilities	88,423	220,964	1	87,212	608	397,208
Spot liabilities	7,306,997	13,206,021	7,814	3,134,550	452,135	24,107,517
Net long position	(2,067,990)	7,663,842	509,472	(1,547,978)	(74,404)	4,482,942

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) 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 fair 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 interest rate risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board set limits on the level of mismatch of interest rate repricing that may be undertaken, which were managed by Treasury Department and monitored by Risk Management Department daily.

As at 31 December 2019, if market interest rates were 1% higher while other variables maintained constant, profit before taxation for the year would have been $22 million higher (2018: $71 million higher). If market interest rates were 1% lower while other variables held constant, profit before taxation for the year would have been $21 million lower (2018: $73 million lower).

The table below summarises the Group’s exposure to interest rate risk. It includes the Group’s financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2019

	Within 1 month $'000	Over 1 month but within 3 months $'000	Over 3 months but within 1 year $'000	Over 1 year but within 5 years $'000	Over 5 years $'000	Undated $'000	Total $'000
Assets							
Cash and balances with banks and central bank	158,151	–	–	–	–	947,396	1,105,547
Placements with and advances to banks	2,013,369	300,000	261,789	–	–	(864)	2,574,294
Financial assets at fair value through profit and loss	25,013	382,516	113,159	–	–	–	520,688
Derivative financial assets	–	–	–	–	–	31,132	31,132
Loans and advances to customers	7,524,469	7,348,028	1,981,496	–	–	(284,655)	16,569,338
Investment securities	1,342,253	1,183,298	2,513,426	6,089,432	680,780	(60,626)	11,748,563
Interests in associates	–	–	–	–	–	224	224
Property and equipments	–	–	–	–	–	68,324	68,324
Intangible assets	–	–	–	–	–	3,683	3,683
Deferred tax assets	–	–	–	–	–	35,144	35,144
Other assets	–	–	–	–	–	284,491	284,491
Total assets	11,063,255	9,213,842	4,869,870	6,089,432	680,780	1,024,249	32,941,428
Liabilities							
Deposits from customers	4,910,059	4,634,847	2,804,967	24,563	–	–	12,374,436
Deposits from banks	4,547,828	2,901,092	272,531	–	–	–	7,721,451
Trading liabilities	–	111,765	–	–	–	–	111,765
Financial assets sold under repurchase agreements	241,171	308,896	–	–	–	–	550,067
Derivative financial liabilities	–	–	–	–	–	22,028	22,028
Certificates of deposit and other debt securities issued	388,499	1,008,474	1,163,595	3,886,385	–	–	6,446,953
Current tax payable	–	–	–	–	–	97,445	97,445
Lease liabilities	2,252	4,485	19,208	31,551	–	–	57,496
Other liabilities	51,485	–	–	–	–	498,532	550,017
Total liabilities	10,141,294	8,969,559	4,260,301	3,942,499	–	618,005	27,931,658
Net repricing gap	921,961	244,283	609,569	2,146,933	680,780	406,244	5,009,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2018

	Within 1 month $'000	Over 1 month but within 3 months $'000	Over 3 months but within 1 year $'000	Over 1 year but within 5 years $'000	Over 5 years $'000	Undated $'000	Total $'000
Assets							
Cash and balances with banks and central bank	222,827	–	–	–	–	1,172,010	1,394,837
Placements with and advances to banks	2,592,414	–	–	–	–	–	2,592,414
Financial assets at fair value through profit and loss	113,845	–	167,190	–	–	5,989	287,024
Derivative financial assets	–	–	–	–	–	32,787	32,787
Loans and advances to customers	7,650,526	5,872,999	925,801	445,632	–	(64,838)	14,830,120
Investment securities	425,811	1,190,022	2,283,581	4,055,806	1,193,298	(30,514)	9,118,004
Interests in associates	–	–	–	–	–	228	228
Property and equipments	–	–	–	–	–	16,437	16,437
Intangible assets	–	–	–	–	–	5,134	5,134
Current tax recoverable	–	–	–	–	–	2,000	2,000
Deferred tax assets	–	–	–	–	–	54,567	54,567
Other assets	–	–	–	–	–	256,907	256,907
Total assets	11,005,423	7,063,021	3,376,572	4,501,438	1,193,298	1,450,707	28,590,459
Liabilities							
Deposits from customers	3,123,829	3,398,009	1,748,763	1,232,752	–	–	9,503,353
Deposits from banks	1,810,400	2,215,624	591,500	364,304	–	–	4,981,828
Trading liabilities	–	–	–	–	–	8,159	8,159
Derivative financial liabilities	–	–	–	–	–	48,430	48,430
Certificates of deposit and other debt securities issued	–	2,535,303	2,692,233	3,898,728	–	–	9,126,264
Current tax payable	–	–	–	–	–	42,275	42,275
Deferred tax liabilities	–	–	–	–	–	–	–
Other liabilities	102,123	–	–	–	–	295,085	397,208
Total liabilities	5,036,352	8,148,936	5,032,496	5,495,784	–	393,949	24,107,517
Net repricing gap	5,969,071	(1,085,915)	(1,655,924)	(994,346)	1,193,298	1,056,758	4,482,942

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to maintain sufficient funding to meet its financial obligations as they fall due. This may be caused by market disruption or liquidity squeeze whereby the Group may only unwind specific exposures at significantly discounted values. The Group adopts a prudent risk appetite in setting liquidity risk tolerance. Risk appetite is set in the form of liquidity risk limit and metrics.

The Asset and Liability Committee (ALCO) is a management committee delegated by the Board to oversee the liquidity risk of the Group. ALCO is responsible for reviewing and approving liquidity risk management strategies and, with the delegation to the Market Risk Division, monitoring the Group's liquidity position.

Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. Sources of liquidity are reviewed to maintain a diversification of providers, products and terms.

Liquidity stress testing is regularly conducted to project the Group's cash flow condition under stress scenarios and evaluate the sufficiency of liquidity. The stress test results are regularly reported to the ALCO.

Treasury Department is responsible for the day-to-day liquidity management, includes:

– day-to-day funding management by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or provision of funds to be borrowed by customers;

– maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

– managing the concentration and profile of debt maturities; and

– monitoring unmatched medium-term assets, the level and type of undrawn lending commitments and the impact of contingent liabilities.

Market Risk Division and the Finance Department produce relevant liquidity reports for internal monitoring and regulatory reporting purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(i) Maturity analysis

The table below shows the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date:

At 31 December 2019

	Repayable on demand $'000	Within 1 month $'000	Over 1 month but within 3 months $'000	Over 3 months but within 1 year $'000	Over 1 year but within 5 years $'000	Over 5 years $'000	Undated $'000	Total $'000
Assets								
Cash and balances with banks and central bank	1,105,737	–	–	–	–	–	(190)	1,105,547
Placements with and advances to banks	–	2,013,369	300,000	261,789	–	–	(864)	2,574,294
Financial assets at fair value through profit and loss	–	–	111,765	162,059	191,425	30,426	25,013	520,688
Derivative financial assets	–	–	–	–	–	–	31,132	31,132
Loans and advances to customers	–	3,426,416	2,208,709	5,844,240	5,032,646	–	57,327	16,569,338
Investment securities	–	1,045,969	652,693	2,645,759	6,697,523	767,245	(60,626)	11,748,563
Interests in associates	–	–	–	–	–	–	224	224
Property and equipments	–	–	–	–	–	–	68,324	68,324
Intangible assets	–	–	–	–	–	–	3,683	3,683
Deferred tax assets	–	–	–	–	–	–	35,144	35,144
Other assets	849	58,197	126,498	36,821	39,738	1,569	20,819	284,491
Total assets	1,106,586	6,543,951	3,399,665	8,950,668	11,961,332	799,240	179,986	32,941,428
Liabilities								
Deposits from customers	–	4,910,059	4,634,847	2,804,967	24,563	–	–	12,374,436
Deposits from banks	–	4,547,828	2,901,092	272,531	–	–	–	7,721,451
Trading liabilities	–	–	111,765	–	–	–	–	111,765
Financial assets sold under repurchase agreement	–	241,171	308,896	–	–	–	–	550,067
Derivative financial liabilities	–	–	–	–	–	–	22,028	22,028
Certificates of deposit and other debt securities issued	–	388,499	1,008,474	1,163,595	3,886,385	–	–	6,446,953
Current tax payable	–	–	52,625	44,820	–	–	–	97,445
Lease liabilities	–	2,252	4,485	19,208	31,551	–	–	57,496
Other liabilities	56,739	264,516	124,433	80,474	27	–	23,828	550,017
Total liabilities	56,739	10,354,325	9,146,617	4,385,595	3,942,526	–	45,856	27,931,658
Net liquidity gap	1,049,847	(3,810,374)	(5,746,952)	4,565,073	8,018,806	799,240	134,130	5,009,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

At 31 December 2018

	Repayable on demand $'000	Within 1 month $'000	Over 1 month but within 3 months $'000	Over 3 months but within 1 year $'000	Over 1 year but within 5 years $'000	Over 5 years $'000	Undated $'000	Total $'000
Assets								
Cash and balances with banks and central bank	1,395,044	–	–	–	–	–	(207)	1,394,837
Placements with and advances to banks	–	2,592,888	–	–	–	–	(474)	2,592,414
Financial assets at fair value through profit and loss	–	113,845	–	167,190	–	–	5,989	287,024
Derivative financial assets	–	–	–	–	–	–	32,787	32,787
Loans and advances to customers	–	3,318,330	1,661,702	3,960,897	5,948,736	5,293	(64,838)	14,830,120
Investment securities	–	229,752	768,125	2,154,086	4,534,386	1,462,169	(30,514)	9,118,004
Interests in associates	–	–	–	–	–	–	228	228
Property and equipments	–	–	–	–	–	–	16,437	16,437
Intangible assets	–	–	–	–	–	–	5,134	5,134
Current tax recoverable	–	–	–	2,000	–	–	–	2,000
Deferred tax assets	–	–	–	–	–	–	54,567	54,567
Other assets	1,583	71,053	83,606	50,926	15,950	3,907	29,882	256,907
Total assets	1,396,627	6,325,868	2,513,433	6,335,099	10,499,072	1,471,369	48,991	28,590,459
Liabilities								
Deposits from customers	–	4,356,580	3,398,010	1,748,763	–	–	–	9,503,353
Deposits from banks	–	2,174,704	2,215,624	591,500	–	–	–	4,981,828
Trading liabilities	8,159	–	–	–	–	–	–	8,159
Derivative financial liabilities	–	–	–	–	–	–	48,430	48,430
Certificates of deposit and other debt securities issued	–	–	2,300,459	2,692,233	4,133,572	–	–	9,126,264
Current tax payable	–	–	–	42,275	–	–	–	42,275
Other liabilities	102,123	100,941	146,818	33,264	152	–	13,910	397,208
Total liabilities	110,282	6,632,225	8,060,911	5,108,035	4,133,724	–	62,340	24,107,517
Net liquidity gap	1,286,345	(306,357)	(5,547,478)	1,227,064	6,365,348	1,471,369	(13,349)	4,482,942

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and derivative financial instruments by remaining contractual maturities at the reporting date, and also the cash flows payable in respect of other off-balance sheet items by the earliest date they could be called. The amounts disclosed in the table were the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on rates prevailing at the reporting date), whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

At 31 December 2019

	Within 1 month $'000	Over 1 month but within 3 months $'000	Over 3 months but within 1 year $'000	Over 1 year $'000	Total $'000	Carrying amount $'000
Non-derivative financial liabilities						
Deposits from customers	4,935,285	4,676,452	2,883,800	25,457	12,520,994	12,374,436
Deposits from banks	4,567,982	2,921,525	275,773	–	7,765,280	7,721,451
Trading liabilities	–	113,507	–	–	113,507	111,765
Financial assets sold under repurchase agreement	242,111	310,696	–	–	552,807	550,067
Certificates of deposit and other debt securities issued	450,981	1,015,697	1,192,475	3,954,133	6,613,286	6,446,953
Lease liabilities	2,252	4,485	19,208	31,551	57,496	57,496
Other liabilities	251,347	15,316	22,160	–	288,823	288,823
	10,449,958	9,057,678	4,393,416	4,011,141	27,912,193	27,550,991
Derivative cash flow settled on a net basis	395	904	1,534	4,567	7,400	
Derivative cash flow settled on a gross basis						
Total inflow	3,969,920	1,600,598	235,211	–	5,805,729	
Total outflow	(3,963,330)	(1,600,274)	(233,598)	–	(5,797,202)	
	6,590	324	1,613	–	8,527	
Other off-balance sheet items (note 31)						
Loan commitments and other credit related commitments	2,895,103	–	–	–	2,895,103	
Financial guarantees and other credit related contingent liabilities	17,963	–	–	–	17,963	
	2,913,066	–	–	–	2,913,066	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities (continued)

At 31 December 2018

	Within 1 month $'000	Over 1 month but within 3 months $'000	Over 3 months but within 1 year $'000	Over 1 year $'000	Total $'000	Carrying amount $'000
Non-derivative financial liabilities						
Deposits from customers	4,371,234	3,426,861	1,788,353	–	9,586,448	9,503,353
Deposits from banks	2,190,953	2,234,056	603,108	–	5,028,117	4,981,828
Trading liabilities	8,159	–	–	–	8,159	8,159
Certificates of deposit and other debt securities issued	61,172	2,365,788	2,836,444	4,344,274	9,607,678	9,126,264
Other liabilities	121,985	74,650	24,420	–	221,055	276,110
	6,753,503	8,101,355	5,252,325	4,344,274	24,451,457	23,895,714
Derivative cash flow settled on a net basis	461	769	1,677	7,800	10,707	
Derivative cash flow settled on a gross basis						
Total inflow	5,532,312	3,609,361	–	–	9,141,673	
Total outflow	(5,537,790)	(3,631,709)	–	–	(9,169,499)	
	(5,478)	(22,348)	–	–	(27,826)	
Other off-balance sheet items (note 31)						
Loan commitments and other credit related commitments	1,850,622	–	–	–	1,850,622	
Financial guarantees and other credit related contingent liabilities	114,279	–	–	–	114,279	
	1,964,901	–	–	–	1,964,901	

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management

Being an authorised institution incorporated in Hong Kong, the Group is regulated by the Hong Kong Monetary Authority (HKMA) which sets and monitors capital requirements for the Group.

The HKMA has issued the Banking (Capital) Rules, which require the Group to maintain adequate regulatory capital to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Group's primary objective in managing its capital is to ensure the Group's ability to continue as a going concern so that it can continue to provide returns and benefits to shareholder and other stakeholders. To achieve the targeted return, products and services are priced to commensurate with the level of risk and funds are acquired at a reasonable cost.

The Group regularly reviews and manages its capital structure to maintain a balance between shareholder returns and security afforded by a capital position, and makes adjustments to the capital structure in light of any significant changes in economic conditions.

The Group monitors its capital structure with due consideration of the capital adequacy ratio as calculated in accordance with the Banking (Capital) Rules. The Group has adopted the Standardised (Credit Risk) Approach in calculating credit risk for non-securitisation exposures.

Throughout the years of 2019 and 2018, the Group fully complied with the capital requirements imposed by the HKMA.

(e) Fair value of financial assets and liabilities

(i) Financial assets and liabilities measured at fair value

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

- Level 1: fair value measured using quoted market prices (unadjusted) in active markets for identical assets and liabilities.

- Level 2: fair value measured using valuation techniques based on observable inputs, either directly or indirectly. This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

– Level 3: fair value measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value and the discount rate used is a discount rate at the end of reporting period applicable for an instrument with similar terms and conditions.

The table below analyses financial instruments, measured at fair value as at 31 December 2019, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit and loss	30,426	113,189	377,073	520,688
Derivative financial assets (note 30)	–	31,132	–	31,132
Investment securities at fair value through other comprehensive income (note 17)	1,185,478	7,367,852	–	8,553,330
Liabilities				
Trading liabilities	–	–	111,765	111,765
Derivative financial liabilities (note 30)	–	22,028	–	22,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit and loss	19,192	–	267,832	287,024
Derivative financial assets (note 30)	–	32,787	–	32,787
Investment securities at fair value through other comprehensive income (note 17)	832,923	4,415,526	–	5,248,449
Liabilities				
Trading liabilities	8,159	–	–	8,159
Derivative financial liabilities (note 30)	–	48,430	–	48,430

During the years of 2019 and 2018, there were no transfers of financial instruments between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of the investment securities in Level 2 is determined using broker quotes as at the end of the reporting period.

Valuation of financial instruments with significant unobservable inputs

The fair value of financial assets at fair value through profit and loss in Level 3 is determined using the most recent transactions. As at 31 December 2019, it is estimated that with all other variable held constant, an increase/decrease in the price of same products by 5% would have increased/decreased the Group's equity by $9.9 million (2018: $10.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The movement during the period in the balance of these Level 3 fair vlaue measurements are as follows:

	Wealth management products from banks $'000	Convertible bonds $'000	Unlisted issued notes and put option $'000	Unlisted equity investments $'000	Unlisted issued notes and buy-back option $'000	Total $'000
At 1 January 2018	110,884	–	–	–	–	110,884
Addition	7,451	364,304	22,769	17,373	–	411,897
Disposal/redemption for the products	(118,335)	(125,229)	–	(11,385)	–	(254,949)
At 31 December 2018	–	239,075	22,769	5,988	–	267,832
At 1 January 2019	–	239,075	22,769	5,988	–	267,832
Addition	61,471	1,005,886	–	19,134	(111,765)	974,726
Disposal/redemption for the products	(61,471)	(888,533)	(22,769)	–	–	(972,773)
Exchange difference	–	(4,368)	–	(109)	–	(4,477)
At 31 December 2019	–	352,060	–	25,013	(111,765)	265,308
Total gains or losses for the period reclassified from other comprehensive income on disposal	–	–	–	–	–	–
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period:						
– Other operating income	345	–	–	–	–	345
– Interest income	–	36,106	1,115	–	–	37,221
– Interest expense	–	–	–	–	(6,314)	(6,314)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The fair values of financial instruments in Level 3 as at 31 December 2019 are determined by their respective valuation techniques as follows:

– Wealth management products from banks	Most recent market transactions or market comparable investment
– Convertible bonds	Discounted cashflow analysis
– Unlisted issued notes	Discounted cashflow analysis
– Unlisted equity investment	Most recent market transactions or market comparable investment

(ii) Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are presented not at their fair value on the Group's consolidated statement of financial position and the Company's statement of financial position mainly represent cash and balances with banks and central bank, placements with and advances to banks, loans and advances to customers and investment securities at amortised costs. These financial assets are measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the Group's consolidated statement of financial position and the Company's statement of financial position mainly represent deposits from banks, deposits from customers, financial assets sold under repurchase agreement and certificates of deposit and other debt securities issued. These financial liabilities are measured at amortised cost.

The Group assessed that the differences between fair values and carrying amounts of those financial assets and liabilities presented on the Group's and the Company's statement of financial position not at their fair values are minimal as most of the Group's and the Company's financial assets and liabilities are either short-term or priced at floating rates, except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities (continued)

(ii) Financial assets and liabilities not measured at fair value (continued)

	Carrying amounts at 31 December 2019 $'000	Fair value at 31 December 2019 $'000	Fair value measurements as at 31 December 2019 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Assets					
Investments securities at amortised cost, net of ECL (Note 17)	3,195,233	3,193,670	–	3,193,670	–
Liabilities					
Other debt securities issued at amortised cost (Note 25)	3,886,385	3,907,160	–	3,907,160	–

	Carrying amounts at 31 December 2018 $'000	Fair value at 31 December 2018 $'000	Fair value measurements as at 31 December 2018 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Assets					
Investments securities at amortised cost, net of ECL (Note 17)	3,869,555	3,678,159	–	3,678,159	–
Liabilities					
Other debt securities issued at amortised cost (Note 25)	3,898,728	3,808,255	–	3,808,255	–

(f) Transfers of financial assets

The Group enters into transactions in the normal course of business which transfers recognised financial assets directly to third party. All these transfers resulted in full derecognition of the financial assets concerned as the Group transferred its contractual right to receive cash flows from these financial assets, or retained the rights but assumed an obligation to pass on the cash flows from these financial assets, and transferred substantially all the risks and rewards from financial assets. The risks included credit, interest rate, currency, prepayment and other price risks.

As at 31 December 2019 and 2018, there were no outstanding transferred financial assets in which the Group had a continuing involvement that were derecognised in their entirety.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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6 NET INTEREST INCOME

	2019 $'000	2018 $'000
Interest income		
Interest income calculated using the effective interest method		
– Balances and placements with banks	33,170	49,796
– Loans and advances to customers	779,017	721,930
– Investment securities	475,659	344,147
– Others	12,005	10,770
Other interest income	40,193	10,608
	1,340,044	1,137,251
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
– Deposits from banks	(160,840)	(111,804)
– Deposits from customers	(289,820)	(221,079)
– Certificates of deposit and other debt securities issued	(244,791)	(278,871)
– Others	(12,692)	(7,283)
Other interest expense	(6,314)	–
	(714,457)	(619,037)
Net interest income	625,587	518,214

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

7 NET FEE AND COMMISSION INCOME

	2019 $'000	2018 $'000
Fee and commission income		
– Credit facilities	27,179	39,088
– Trade services	1,484	1,222
– IPO sponsorship	–	500
– Corporate advisory	144,683	93,440
– Asset management	13,575	11,648
– Brokerage	59	323
– Others	1,894	4,474
	188,874	150,695
Fee and commission expense	(19,275)	(16,022)
Net fee and commission income	169,599	134,673

All the fee and commission income of $188,874,000 (2018: $150,695,000) and fee and commission expense of $19,275,000 (2018: $16,022,000) for the year ended 31 December 2019 arose from financial assets and financial liabilities that were not measured at fair value through profit or loss.

Net fee and commission income arose from trust or other fiduciary activities in which the Group held or invested on behalf of its customers for the years ended 31 December 2019 was $13,575,000 (2018: $11,648,000).

8 NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	2019 $'000	2018 $'000
Foreign exchange	6,767	10,652
Interest rate and others	(3,099)	(882)
	3,668	9,770

The foreign exchange gain in 2019 included the translation loss of $19 million (2018: $41 million) on those Renminbi (RMB) assets funded by the Company's capital denominated in RMB (which is recorded on these financial statements at historical exchange rate) due to change in exchange rate of RMB against HKD. Excluding this translation loss, trading income from normal foreign exchange activities was $26 million (2018: $52 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

9 OPERATING EXPENSES

	Note	2019 $'000	2018 $'000 (note)
Staff costs			
– Salaries and other benefits		189,199	147,629
– Pension and provident fund costs		4,316	5,327
		193,515	152,956
Premises and equipment expenses excluding depreciation			
– Variable lease payments not included in the measurement of lease liabilities		1,214	21,744
– Maintenance and office facility expenses		3,997	3,283
– Others		1,661	1,519
		6,872	26,546
Auditor's remuneration		2,260	1,955
Depreciation of property and equipments	20	32,794	7,129
Amortisation of intangible assets	21	3,020	3,160
Legal and professional fees		7,205	5,425
IT and system expenses		8,780	9,126
Data subscription fees		4,826	4,104
Other operating expenses		16,424	12,416
		75,309	43,315
		275,696	222,817

Note: The Group has initially applied HKFRS 16 using the retrospective approach. Under this approach, the comparative information is not restated. See note 2 (b).

10 ALLOWANCES FOR CREDIT AND OTHER LOSSES

(a) impairment charge / (release) to the statement of profit or loss

	Note	2019 HK$'000	2018 HK$'000
Cash and balances with banks and central banks	14	(17)	205
Placements with and advances to banks	15	390	11
Loans and advances to customers	16(b)	100,516	140,992
Investment securities		49,796	39,246
Other assets	22	7,939	412
Off-balance sheet credit exposures	27	8,593	(4,054)
		167,217	176,812

(b) Movement in impairment allowances

The following table explains the changes in ECL allowances under HKFRS 9 in 2019. Movement items include the following:

- Transfers between stages, which are presumed to occur before any corresponding remeasurements of the allowance.

- Originations and purchases, which reflect the allowance related to instruments that were newly recognized during the year.

- Derecognitions which reflect the allowance related to instruments derecognised (e.g. matured or sold) during the year.

- Remeasurements which comprise the impact of changes in model inputs or assumptions, partial repayments, additional drawdowns on existing facilities and changes in the measurement following a transfer between stages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

10 ALLOWANCES FOR CREDIT AND OTHER LOSSES (CONTINUED)

	Stage 1 ECL $'000	Stage 2 ECL $'000	Stage 3 ECL $'000	Total $'000
Balance at 1 January 2019	175,292	16,275	146,867	338,434
Allowance for credit and other losses				
Transfer to / (from)				
– Stage 1	(8,425)	–	8,425	–
– Stage 2	(8,106)	(8,169)	16,275	–
– Stage 3	–	–	–	–
	(16,531)	(8,169)	24,700	–
New provisions charge	87,416	22,445	57,356	167,217
Net write-offs (note 16(b))	–	–	(106,761)	(106,761)
Effect of foreign currency movements (note 16(b))	–	–	(28)	(28)
Balance at 31 December 2019	246,177	30,551	122,134	398,862

11 DIRECTORS' EMOLUMENTS

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

	2019 $'000	2018 $'000
Fees	1,200	1,012
Other emoluments	3,240	4,148
Contribution to provident fund	–	102
	4,440	5,262

12 TAXATION

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2019 $'000	2018 $'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	65,137	54,638
– Under-provision in prior year	1,551	2,337
	66,688	56,975
Taxation outside Hong Kong		
– Withholding tax in the People's Republic of China	71	252
– Provision for the year	15,467	9,839
	82,226	67,066
Deferred tax		
Origination and reversal of temporary differences (Note 24(b))	(20,179)	(16,522)
	62,047	50,544

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For the Company, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated at the same basis in 2018.

The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of $20,000 for each business (2018: a maximum reduction of 30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

12 TAXATION (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 $'000	2018 $'000
Profit before taxation	370,341	268,673
Notional tax on profit before taxation, calculated under Hong Kong Profits Tax two-tiered rate regime	60,941	44,331
Tax effect of income/expense not subject to taxation	(7,159)	(948)
Tax effect of unused current year tax loss not recognised	14	18
Under-provision in prior year	1,551	2,337
Effect of different tax rates of subsidiaries operating in other jurisdiction	6,223	4,493
Others	477	313
Actual tax expense	62,047	50,544

13 OTHER COMPREHENSIVE INCOME

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

	2019			2018		
	Before tax amount $'000	Tax expense $'000	Net-of-tax amount $'000	Before tax amount $'000	Tax expense $'000	Net-of-tax amount $'000
Foreign currency translation differences for Mainland China subsidiaries	(5,239)	–	(5,239)	(15,539)	–	(15,539)
Net movements in revaluation reserve (Note 13(b))	263,375	(39,602)	223,773	(154,951)	22,282	(132,669)
Other comprehensive income	258,136	(39,602)	218,534	(170,490)	22,282	(148,208)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

13 OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Components of other comprehensive income

	2019 $'000	2018 $'000
Fair value through other comprehensive income:		
Changes in fair value recognised during the year	277,047	(153,641)
Reclassification adjustments for amounts transferred to profit or loss upon disposal	(13,672)	(1,310)
Net deferred tax (debited)/credited to revaluation reserve (Note 24(b))	(39,602)	22,282
Net movement in revaluation reserve during the year recognised in other comprehensive income	223,773	(132,669)

14 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2019 $'000	2018 $'000
Balances with banks	1,101,024	1,370,609
Balance with central bank	4,713	24,435
	1,105,737	1,395,044
Allowance for credit and other losses	(190)	(207)
Net cash and balances with banks and central bank	1,105,547	1,394,837

A subsidiary of the Company maintains segregated accounts with authorised institutions as a result of its normal business transaction. At 31 December 2019, segregated accounts dealt within these financial statements amounted to HK$3,968,000 (2018: HK$4,005,000).

15 PLACEMENTS WITH AND ADVANCES TO BANKS

	2019 $'000	2018 $'000
Gross placements with and advances to banks		
– maturing within one month	2,013,369	2,592,888
– maturing between one month and twelve months	561,789	–
	2,575,158	2,592,888
Allowance for credit and other losses	(864)	(474)
Net placements with and advances to banks	2,574,294	2,592,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	2019 $'000	2018 $'000
Gross loans and advances to customers	16,853,993	15,121,048
Less: Allowance for credit and other losses		
– Stage 1 & 2 ECL (Note 16(b))	(170,872)	(144,473)
– Stage 3 ECL (Note 16(b))	(113,783)	(146,455)
	16,569,338	14,830,120

(b) Loan impairment allowances against loans and advances to customers

	Stage 1 & 2 ECL $'000	Stage 3 ECL $'000	Total $'000
At 1 January 2018	(85,683)	(220,744)	(306,427)
Net charges (note 10(a))	(58,790)	(82,202)	(140,992)
Amounts written off	–	157,103	157,103
Effect of foreign currency movements	–	(612)	(612)
At 31 December 2018 and 1 January 2019	(144,473)	(146,455)	(290,928)
Net charges (note 10(a))	(26,399)	(74,117)	(100,516)
Amounts written off (note 10(b))	–	106,761	106,761
Effect of foreign currency movements	–	28	28
At 31 December 2019	(170,872)	(113,783)	(284,655)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Gross loans and advances to customers by industry sector

	2019		2018	
	$'000	% of gross advances covered by collaterals	$'000	% of gross advances covered by collaterals
Gross loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial sectors				
– property development	310,366	27.7	214,806	–
– property investment	5,936	100.0	892,120	100.0
– financial concerns	3,885,247	36.8	3,476,587	56.7
– wholesale and retail trade	–	–	7,399	52.7
– manufacturing	417,213	83.1	–	–
– transport and transport equipment	–	–	55,985	–
– information technology	–	–	544,286	27.2
– others	197,034	16.7	204,696	2.6
	4,815,796	39.5	5,395,879	56.0
Individuals	70,573	–	70,660	–
Total gross loans and advances for use in Hong Kong	4,886,369	38.9	5,466,539	55.2
Trade finance	164,166	–	2,169	–
Gross loans and advances for use outside Hong Kong	11,803,458	31.8	9,652,340	23.1
Gross loans and advances to customers	16,853,993	33.6	15,121,048	34.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

	Gross loans and advances to customers $'000	Impaired loans and advances (Stage 3) $'000	Overdue loans and advances $'000	Stage 3 ECL $'000	Stage 1 & 2 ECL $'000
At 31 December 2019					
– Hong Kong	4,947,813	–	–	–	(57,434)
– Mainland China	11,484,316	341,982	30,518	(113,783)	(104,411)
– Others	421,864	–	–	–	(9,027)
	16,853,993	341,982	30,518	(113,783)	(170,872)
At 31 December 2018					
– Hong Kong	3,498,046	31,320	31,320	(31,320)	(35,725)
– Mainland China	11,390,914	194,771	194,771	(115,135)	(103,994)
– Others	232,088	–	–	–	(4,754)
	15,121,048	226,091	226,091	(146,455)	(144,473)

(e) Gross loans and advances to customers by credit quality

	2019 $'000	2018 $'000
Pass	15,868,300	14,797,037
Special mentioned	643,711	97,920
Substandard	311,464	117,450
Doubtful	30,518	–
Loss	–	108,641
	16,853,993	15,121,048

The above table shows the grading according to the loan classification system as defined by the HKMA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

17 INVESTMENT SECURITIES

	2019 $'000	2018 $'000
Investment securities measured at amortised cost	3,255,859	3,900,069
Allowance for credit and other losses	(60,626)	(30,514)
	3,195,233	3,869,555
Investment securities at fair value through other comprehensive income	8,553,330	5,248,449
	11,748,563	9,118,004
Analysed by type of securities:		
Government bills, notes and bonds	1,185,478	855,608
Certificate of deposit	620,374	1,622,750
Debt securities	9,942,711	6,639,646
	11,748,563	9,118,004
Analysed by issuers:		
– Sovereigns	1,185,478	832,923
– Public sector entities	–	22,685
– Banks	1,329,661	2,321,330
– Corporates	9,233,424	5,941,066
	11,748,563	9,118,004
Analysed by listing status:		
– Listed in Hong Kong	5,873,610	3,714,118
– Listed outside Hong Kong	3,249,774	2,555,705
– Unlisted	2,625,179	2,848,181
	11,748,563	9,118,004

As at 31 December 2019 and 2018, there were no investment securities individually determined to be impaired.

18 INTERESTS IN ASSOCIATES

Information of associate that is not individually material:

	2019 $'000	2018 $'000
Carrying amount of individually immaterial associates in the consolidated financial statements	224	228

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

19 INVESTMENT IN SUBSIDIARIES

	2019 $'000	2018 $'000
Unlisted shares, at cost		
At 1 January and 31 December	780,000	780,000

Particulars of the major operating subsidiaries at 31 December 2019 are as follows:

			Proportion of ownership interest			
Name of Companies	Place of incorporation and place of business	Particulars of issued shares held	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
BOSC International Company Limited (BOSCI)*	Hong Kong	78,000,000 shares of HK$10 each	100%	100%	–	Investment banking
BOSC International Investment Limited*	Hong Kong	1,000,000 shares of HK$1 each	100%	–	100%	Investment trading
BOSC International (Shenzhen) Company Limited*	People's Republic of China	100,000,000 shares of RMB$1 each	100%	–	100%	Corporate advisory
BOSC International Advisory (Shenzhen) Company Limited*	People's Republic of China	10,000,000 shares of RMB$1 each	100%	–	100%	Corporate advisory
BOSC International (BVI) Limited*	British Virgin Islands	1 share of US$1 each	100%	–	100%	Special purpose entity for financing
BOSC Stable Income Fund SP	Cayman Islands	250,000 shares of US$100 each	100%	–	100%	Investment fund

* The proportion of voting rights in these subsidiaries did not differ from the proportion of ordinary shares held. There was no non-controlling interest in these subsidiaries.

20 PROPERTY AND EQUIPMENTS

Details of movement of property and equipments are as follows:

	Leasehold improvements $'000	Furniture, computer and other equipments $'000	Motor vehicles $'000	RoU assets – properties and office equipment $'000	Total $'000
Cost:					
At 1 January 2018	21,499	20,295	1,007	–	42,801
Additions	300	1,927	1,169	–	3,396
Exchange adjustments	–	(15)	(3)	–	(18)
At 31 December 2018	21,799	22,207	2,173	–	46,179
Impact of initial application of HKFRS 16 (Note)	–	–	–	63,844	63,844
At 1 January 2019	21,799	22,207	2,173	63,844	110,023
Additions	397	1,492	737	18,203	20,829
Exchange adjustments	–	(20)	(8)	–	(28)
At 31 December 2019	22,196	23,679	2,902	82,047	130,824
Accumulated depreciation:					
At 1 January 2018	(7,322)	(14,303)	(1,007)	–	(22,632)
Charge for the year	(3,759)	(3,250)	(120)	–	(7,129)
Exchange adjustments	–	18	1	–	19
At 31 December 2018	(11,081)	(17,535)	(1,126)	–	(29,742)
At 1 January 2019	(11,081)	(17,535)	(1,126)	–	(29,742)
Charge for the year	(3,833)	(2,983)	(383)	(25,595)	(32,794)
Exchange adjustments	–	16	3	17	36
At 31 December 2019	(14,914)	(20,502)	(1,506)	(25,578)	(62,500)
Net book value:					
At 31 December 2019	7,282	3,177	1,396	56,469	68,324
At 31 December 2018	10,718	4,672	1,047	–	16,437

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 2(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

21 INTANGIBLE ASSETS

	2019 $'000	2018 $'000
Software	3,333	4,784
Club membership	350	350
	3,683	5,134

Details of movement of intangible assets are as follows:

	2019 $'000	2018 $'000
Cost:		
At 1 January	18,601	16,446
Additions	1,564	2,155
At 31 December	20,165	18,601
Accumulated amortisation:		
At 1 January	(13,467)	(10,307)
Charge for the year	(3,020)	(3,160)
Exchange adjustments	5	–
At 31 December	(16,482)	(13,467)
Net book value:		
At 31 December	3,683	5,134

During 2019 and 2018, there was no impairment on intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

22 OTHER ASSETS

	2019	2018
	$'000	$'000
Interest receivables (Note a)	235,639	188,107
Collaterals placed (Note b)	8,254	16,130
Fees receivable	15,924	12,186
Customer liability under acceptances	3,949	6,207
Prepaid expenses	8,248	6,986
Accounts receivable	4,225	18,942
Others	8,252	8,349
	284,491	256,907

Note a: Included Stage 3 ECL of $8,351,000 (2018: $412,000).

Note b: Mainly relates to cash collaterals placed in respect of derivative financial liabilities.

23 DEPOSITS FROM CUSTOMERS

	2019	2018
	$'000	$'000
Deposits from customers		
– Time, call and notice deposits	12,374,436	9,503,353

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current tax in the consolidated statement of financial position represents:

	2019	2018
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	65,137	54,638
Provisional Profits Tax paid	(11,478)	(29,213)
	53,659	25,425
Balance of profit tax provision relating to prior years	18,278	4,444
Provision of overseas tax	25,508	10,406
	97,445	40,275
Representing:		
Current tax payable	97,445	42,275
Current tax recoverable	–	(2,000)
	97,445	40,275

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

	Depreciation allowances in excess of the related depreciation $'000	Amortisation of intangible assets $'000	Impairment allowance $'000	Others $'000	Revaluation of investment securities $'000	Depreciation charge of right-of-use assets $'000	Total $'000
At 1 January 2018	393	953	(15,857)	(45)	(1,207)	–	(15,763)
Credited to consolidated statement of profit or loss and other comprehensive income (note 12(a))	(539)	(166)	(15,273)	(273)	(271)	–	(16,522)
Credited to revaluation fair value reserve	–	–	–	–	(22,282)	–	(22,282)
At 31 December 2018	(146)	787	(31,130)	(318)	(23,760)	–	(54,567)
At 1 January 2019	(146)	787	(31,130)	(318)	(23,760)	–	(54,567)
Credited to consolidated statement of profit or loss and other comprehensive income (note 12(a))	(912)	(239)	(13,359)	(5,581)	–	(88)	(20,179)
Credited to revaluation fair value reserve	–	–	–	–	39,602	–	39,602
At 31 December 2019	(1,058)	548	(44,489)	(5,899)	15,842	(88)	(35,144)

Representing:

	2019 $'000	2018 $'000
Net deferred tax assets	(35,144)	(54,567)
Net deferred tax liabilities	–	–
	(35,144)	(54,567)

The Group has not recognised deferred tax asset in respect of tax losses of HK$250,000 (2018: HK$158,000). The tax losses do not expire under tax legislation.

25 CERTIFICATES OF DEPOSIT AND OTHER DEBT SECURITIES ISSUED

	2019 $'000	2018 $'000
Certificates of deposit issued at amortised cost	2,560,568	5,227,536
Other debt securities issued at amortised cost (Note 33(d))	3,886,385	3,898,728
	6,446,953	9,126,264

On 18 January 2018, the Group, through one of its subsidiaries, issued bonds with notional amounts of US$500,000,000. The bonds are fully subscribed of the price at 99.654 and bear a coupon rate of 3.125 percent per annum. The bonds would be matured on 18 January 2021.

26 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods:

	At 31 December 2019		At 1 January 2019 (Note)		At 31 December 2018	
	Present value of the minimum lease payments $'000	Total minimum lease payments $'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	25,945	27,038	22,001	23,512	–	–
After 1 year but within 2 years	22,545	23,119	22,527	23,512	–	–
After 2 years but within 5 years	9,006	11,023	19,316	19,593	–	–
After 5 years	–	–	–	–	–	–
	31,551	34,142	41,843	43,105	–	–
	57,496	61,180	63,844	66,617	–	–
Less: total future interest expenses		(3,684)		(2,773)		–
Present value of lease liabilities		57,496		63,844		–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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26 LEASE LIABILITIES (CONTINUED)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	The Group 2019 $'000
Depreciation of right-of-use assets by class of underlying asset:	
Lease of office premises and equipments (note 20)	25,595
Interest on lease liabilities	2,499
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	71

As the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group applied the recognition exemption of short-term leases and leases of low-value assets. The transition to HKFRS 16 has no material impact to the Group's results and financial position.

Total 2018 minimum lease payments for leases previously classified as operating leases under HKAS 17 is presented as "General administrative expenses" in statement of profit or loss.

(i) Lease for office premises

The Group leased office premises under leases expiring within 5 years. None of the leases include an option to renew the lease nor variable lease payments.

27 OTHER LIABILITIES

	2019 $'000	2018 $'000
Interest payables	184,667	176,972
Acceptances outstanding	3,949	6,207
Accounts payable	169,460	9,149
Accrued expenses	6,598	3,236
Provision for short-term employee benefits	94,924	69,486
Collateral received	8,866	8,949
Short-term borrowings (Note 33(d))	51,485	102,123
Others (Note)	30,068	21,086
	550,017	397,208

Note: Included allowance for credit and other losses of HK$11,600,000 (2018: HK$3,007,000).

28 CAPITAL AND RESERVES

(a) Share capital

	2019 No. of shares $'000	2019 $'000	2018 No. of shares $'000	2018 $'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	360,439	4,000,000	360,439	4,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(b) Movement in components of equity at Company level

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital $'000	Retained profits $'000	Revaluation reserve $'000	Regulatory reserve $'000	Total $'000
Balance at 1 January 2018	4,000,000	267,663	(8,542)	108,393	4,367,514
Total comprehensive income	–	159,803	(28,278)	–	131,525
Transfer from regulatory reserve	–	101,655	–	(101,655)	–
Balance at 31 December 2018	4,000,000	529,121	(36,820)	6,738	4,499,039
Total comprehensive income	–	204,522	74,192	–	278,714
Transfer from regulatory reserve	–	6,738	–	(6,738)	–
Balance at 31 December 2019	4,000,000	740,381	37,372	–	4,777,753

(c) Dividends

	2019 $'000	2018 $'000
Dividend approved or paid during the year	–	–

28 CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves

(i) Revaluation reserve

This comprises the cumulative net change in the fair value and the allowance for ECLs for investment securities at fair value through other comprehensive income until the financial assets are derecognised and is dealt with in accordance with the accounting policies in note 1(f).

(ii) Retained profits

The Group is required to maintain minimum capital adequacy ratio set by the HKMA. The minimum capital requirements could therefore potentially restrict the amount of retained profits available for distribution to the shareholders.

(iii) Regulatory reserve

The regulatory reserve is maintained in accordance with Hong Kong Banking regulations. At 31 December 2019, no regulatory reserve (2018: $6,738,000) was required to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve was made directly through retained profits after consultation with the HKMA. The regulatory reserve is non-distributable.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in notes 1 (q).

29 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into transactions with related parties in the normal course of business including accepting and placement of inter-bank deposits, conducting correspondent banking and foreign exchange transactions. All these related party transactions were priced at the relevant market rates at the time of each transaction.

29 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below:

	Immediate holding company	
	2019	2018
	$'000	$'000
Consolidated statement of profit or loss and other comprehensive income:		
Interest income	38	143
Interest expense	(21,813)	(60,127)
Net fee and commission income	1,811	3,189
Other operating income	345	3,040
Consolidated statement of financial position:		
Amounts due from:		
– Cash and balances with banks and central bank	28,348	38,925
– Other assets	1,045	752
Amounts due to:		
– Deposits from banks	2,335,980	861,300
– Other liabilities	6,648	4,142
– Lease liabilities	15,185	–

(b) Directors and key management personnel

During the year, the Group did not provide any credit facilities nor accept any deposits from the directors and key management personnel of the Group and its holding companies as well as their close family members and companies controlled or significantly influenced by them.

Remunerations, for key management personnel, including amounts paid to the Group's directors as disclosed in Note 11, are as follows:

	2019	2018
	$'000	$'000
Salaries and other benefits	13,735	12,777
Contribution to provident fund	759	840
Variable bonuses	5,175	2,848

30 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives entered into by the Group include foreign exchange forward and swap contracts. The Group used these derivatives in its own assets and liabilities management and also sold these products to customers as normal banking activities. For these transactions entered into with customers, they were actively managed through offsetting deals with external parties to ensure the Group's net exposures were within acceptable level of risk. No significant proprietary positions were maintained by the Group at 31 December 2019 and 2018.

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules and depends on the status of the counterparty and the residual maturity of the transaction. The risk-weight factor for derivatives outstanding at 31 December 2019 ranged from 20% to 100% (2018: 20% to 100%).

Derivative financial instruments are presented in net when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at 31 December 2019, no derivative financial instruments have fulfilled the above criteria, therefore no derivative financial instruments were offset on the consolidated statement of financial position (2018: Nil).

Derivatives – held for trading

	2019				2018			
	Notional amount HK$'000	Derivative financial assets HK$'000	Derivative financial liabilities HK$'000	Credit risk-weighted amounts HK$'000	Notional amount HK$'000	Derivative financial assets HK$'000	Derivative financial liabilities HK$'000	Credit risk-weighted amounts HK$'000
Exchange rate contracts								
– Spot and forward	5,805,730	22,942	19,535	21,730	9,141,672	17,096	42,620	12,127
Interest rate contracts								
– Swap	1,280,650	8,190	2,493	12,056	1,200,720	15,691	5,810	26,022
– forward forward deposits	1,463,881	–	–	–	–	–	–	–
	8,550,261	31,132	22,028	33,786	10,342,392	32,787	48,430	38,149

31 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitment to extend credit

	2019 $'000	2018 $'000
Contract amounts		
– Direct credit substitutes	–	90,942
– Trade-related contingencies	7,103	12,477
– Transaction-related contingencies	10,860	10,860
– Other commitments		
– which are unconditionally cancellable	2,447,850	1,775,644
– with an original maturity under one year	251,597	–
– with an original maturity over one year	195,656	74,978
	2,913,066	1,964,901
Credit risk-weighted amounts	149,012	39,391

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

The risk-weight factor for the computation of credit risk-weighted amounts range from 0% to 100%.

31 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

(b) Lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 $'000
Within 1 year	23,512
After 1 year but within 5 years	43,105
	66,617

The Group is the lessee in respect of an office premise which was previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(b)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(i), and the details regarding the Group's future lease payments are disclosed in note 26.

32 LOANS TO DIRECTORS AND ENTITIES CONNECTED WITH DIRECTORS

Loans to directors of the Company and entities connected with directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019 $'000	2018 $'000
Aggregate amount in respect of principal and interest as at 31 December	–	–
The maximum aggregate amount outstanding in respect of principal and interest during the year	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	Note	2019 $'000	2018 $'000
Profit before taxation		370,341	268,673
Adjustments for:			
Interest income	6	(1,340,044)	(1,137,251)
Interest expense	6	714,457	619,037
Depreciation of property and equipments	9	32,794	7,129
Amortisation of intangible assets	9	3,020	3,160
Impairment charges	10	167,217	176,812
Net income from investment securities	13(b)	(13,672)	(1,310)
Interest received		833,652	753,526
Interest paid		(498,449)	(399,133)
Operating profit before changes in working capital		269,316	290,643
Change in financial assets at fair value through profit or loss		(208,742)	(176,025)
Change in trading liabilities		103,606	8,159
Change in financial assets sold under repurchase agreement		550,067	–
Change in balances and placements with and advances to banks with original maturity beyond three months		(261,752)	1,664,035
Change in gross loans and advances to customers		(1,828,715)	95,046
Change in other assets		17,690	(19,694)
Change in deposits from customers		2,871,083	(4,124,934)
Change in deposits from banks		2,739,623	557,687
Change in certificates of deposit issued		(2,728,304)	3,054,761
Change in other liabilities		199,635	14,724
Elimination of exchange differences and other non cash items		71,783	(119,728)
Cash generated from operating activities		1,795,290	1,244,674
Hong Kong Profits Tax paid		(13,818)	(32,419)
Tax paid outside Hong Kong		(24,432)	(2,260)
Net cash inflow from operating activities		1,757,040	1,209,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(EXPRESSED IN HONG KONG DOLLARS)

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Cash and cash equivalents in the consolidated statement of cash flows:

	2019 $'000	2018 $'000
Gross cash and balances with banks and central bank (Note 14)	1,105,737	1,395,044
Less: Balances with banks for segregated accounts	(3,968)	(4,005)
Gross placements with banks with original maturity within three months	2,313,369	2,592,888
Investment securities with original maturity within three months	970,468	528,972
	4,385,606	4,512,899

(c) Reconciliation with the consolidated statement of financial position:

	2019 $'000	2018 $'000
Cash and balances with banks and central bank (Note 14)	1,105,737	1,395,044
Gross placements with and advances to banks (Note 15)	2,575,158	2,592,888
Investment securities (Note 17)	11,809,189	9,148,518
Amounts shown in the consolidated statement of financial position	15,490,084	13,136,450
Less: Balances, gross placements with and advances to banks and investment securities with original maturity beyond three months	(11,100,510)	(8,619,546)
Less: Balances with banks for Segregated accounts	(3,968)	(4,005)
	4,385,606	4,512,899

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Other debt securities issued (note 25) $'000	Short-term borrowings (note 27) $'000	Other borrowings $'000	Lease Liabilities (note 26) $'000	Total $'000
At 1 January 2018	781,540	–	–	–	781,540
Changes from financing cash flow:					
Redemption from the issuance of other debt securities	(781,945)	–	–	–	(781,945)
Proceeds from short-term borrowings	–	102,123	–	–	102,123
Proceeds from the issuance of other debt securities	3,894,179	–	–	–	3,894,179
Interest paid	(82,952)	(2,241)	–	–	(85,193)
Total changes from financing cash flow	3,029,282	99,882	–	–	3,129,164
Interest expense	82,952	2,241	–	–	85,193
Exchange difference	4,954	–	–	–	4,954
Total other changes	87,906	2,241	–	–	90,147
At 31 December 2018	3,898,728	102,123	–	–	4,000,851
Impact on initial application of HKFRS 16 (note)	–	–	–	63,844	63,844
At 1 January 2019	3,898,728	102,123	–	63,844	4,064,695
Changes from financing cash flow:					
Repayment of other borrowings	–	–	(193,129)	–	(193,129)
Repayment of short-term borrowings	–	(50,638)	–	–	(50,638)
Proceeds from other borrowings	–	–	193,129	–	193,129
Capital element of lease rentals paid	–	–	–	(24,551)	(24,551)
Interest element of lease rentals paid	–	–	–	(2,499)	(2,499)
Interest paid	(142,562)	(1,835)	(9,931)	–	(154,328)
Total changes from financing cash flow	(142,562)	(52,473)	(9,931)	(27,050)	(232,016)
Increase in lease liabilities from entering new lease during the period	–	–	–	18,203	18,203
Interest expense	142,562	1,835	9,931	2,499	156,827
Exchange difference	(12,343)	–	–	–	(12,343)
Total other changes	130,219	1,835	9,931	20,702	162,687
At 31 December 2019	3,886,385	51,485	–	57,496	3,995,366

(EXPRESSED IN HONG KONG DOLLARS)

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities (continued):

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17 (see note 2(b)).

34 IMMEDIATE AND ULTIMATE HOLDING COMPANY

As at 31 December 2019, the Company's immediate and ultimate holding company is Bank of Shanghai Co., Limited, which is incorporated in the People's Republic of China. Bank of Shanghai Co., Limited produces financial statements available for public access.

35 EVENTS AFTER REPORTING PERIOD

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations. The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures.

As far as the Group's businesses are concerned, the outbreak has caused operation delays. Based on the information currently available, the management has not estimated the financial impact to the Group and has not adjusted the financial information as of 31 December 2019. The actual impact is subject to evolving situation and further information.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts,* which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

CORPORATE GOVERNANCE REPORT (UNAUDITED)

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

1 CORPORATE GOVERNANCE

The Bank fully complied with, in all material aspects, throughout the year with the module on “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the HKMA.

(a) Corporate Governance Policy

The Bank recognizes the importance of robust corporate governance and high standards of corporate governance and maintains an effective corporate governance framework to ensure effective oversight and strong accountability of the Board and senior management. The established well-structured corporate governance framework directs and provides the business ethical conduct of the Bank, thereby protects and upholds the interests of shareholders as a whole in a sustainable manner.

(b) Governance Framework

The Board is at the core of the Bank’s corporate governance framework and responsible for the leadership and control of the Bank to promote its success and continuing growth. The Board is responsible for providing high-level guidance and effective oversight of the management.

Based on the regulatory requirements, guidelines as well as market practices, the Board has established a number of Board Committees (i.e. Audit Committee, Remuneration and Nomination Committee, Risk and Compliance Committee and Executive Committee), Management Level Committees (i.e. Credit Committee, Asset and Liability Committee, and Operations and Technology Committee), and Anti-Money Laundering Committee to help Executive Committee oversee the daily operations of the Bank.

All these committees have specific terms of reference in order to ensure that the committees will discharge their responsibilities properly and to report back to the Board when appropriate, their recommendations and decisions.

(c) The Board

Generally, the Board is responsible for:

– ensure that the Company’s management is competent by appointing a chief executive (including an alternate chief executive) with integrity, technical competence and experience in the banking business which enables him to administer the Company’s affairs effectively and prudently.

– oversee the appointment of other senior executives and ensure that they are fit and proper to manage and supervise the Company’s key businesses and functions.

– approve and monitor the Company’s business objectives, strategies and financial plan by approving annual budgets and reviewing performance against these budgets; and

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(c) The Board (continued)

– ensure that the Company's operation is conducted prudently and within the framework of law regulations and the Bank's policies by, among other things:

- approving and periodically reviewing the risk management governance and policies of the Company to ensure that they are adequate and consistent with the Company's operating environment, and that adequate capital is maintained against the risks;
- ensuring that senior management is implementing the strategies approved by the Board and developing suitable policies and procedures for managing the various types of risk; and
- regularly reviewing the Company's financial indicators against performance and the established risk targets.

– ensure that the Company conducts its affairs with a high degree of integrity by, among other things, developing appropriate policies and codes of conduct that safeguard against improper or unlawful activities.

(d) Profiles of Directors

Name	Role in BOSHK	Qualifications	Other Directorships and executive positions held
Mr. Jin Yu	Non-Executive Director, Chairman (resigned as Director and Chairman on 1 February 2019)	Doctorate Degree in Economics, Fudan University	Chairman & Executive Director, Bank of Shanghai Co.,Limited Director, Shenlian International Investment Company Director, Shanghai Commercial Bank Limited
Mr. Huang Tao	Non-Executive Director, Chairman (appointed as Chairman on 1 February 2019)	Master Degree in Business Administration, University of Oxford	Vice President, Bank of Shanghai Co., Limited Director, Shenlian International Investment Company Chairman, BOSC International Company Limited

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(d) Profiles of Directors (continued)

Name	Role in BOSHK	Qualifications	Other Directorships and executive positions held
Ms. Zhang Xuhong	Executive Director & CEO	Master Degree in Business Administration, Shanghai Jiao Tong University	Non-Executive Director, BOSC International Company Limited
Prof. Tsien James Steed	Independent Non-Executive Director	Honorary Professor, Hong Kong Baptist University	Honorary Director, Hong Kong Baptist University Foundation
		Adjunct Professor, Hang Seng University of Hong Kong	Member, University Council, Hang Seng University of Hong Kong
		Chartered Manager & Companion, The Chartered Management Institute, UK	
		Honorary Fellow, Hong Kong Baptist University	
		Honorary Member, University Court, Hong Kong Baptist University	
		Member, The Hong Kong Institute of Bankers	
		Executive Program for International Managers, The Graduate School of Business, Columbia University, New York, U.S.A.	
		Diploma in Business Management (with distinction), Hong Kong Baptist College	
Mr. Cheng Kwok Kin, Paul	Independent Non-Executive Director	Fellow member of Institute of Chartered Accountants in England and Wales and Hong Kong Institute of Certified Public Accountants	Independent Non-Executive Director, Kin Yat Holdings Limited
			Independent Non-Executive Director, Xinyi Solar Holdings Limited

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(d) Profiles of Directors (continued)

Name	Role in BOSHK	Qualifications	Other Directorships and executive positions held
Mr. Fong Wo, Felix	Independent Non-Executive Director	Bachelor of Engineering, Dean's honour (McMaster University, Canada) Juris Doctor (Osgoode Hall Law School, Canada) Member of the law societies of Hong Kong, Ontario and England China-Appointed Attesting Officer in Hong Kong appointed by the Ministry of Justice of China	Independent Non-Executive Director, Greenland Hong Kong Holdings Limited Independent Non-Executive Director, Guangdong Land Holdings Limited Independent Non-Executive Director, Evergreen International Holdings Limited Independent Non-Executive Director, Sheen Tai Holdings Group Company Limited Independent Non-Executive Director, Xinming China Holdings Limited Independent Non-Executive Director, WuXi Biologics (Cayman) Inc. Independent Non-Executive Director, Television Broadcasts Limited Director, Smartcheer Limited Director, Smartcheer One Limited Director, Smartcheer Two Limited Director, Smartcheer Three Limited Director, Lafantaine Holdings Inc. Director, Basic Law Institute Limited Director, Hong Kong Economic Exchange Company Limited Consultant, King & Wood Mallesons

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(d) Profiles of Directors (continued)

Name	Role in BOSHK	Qualifications	Other Directorships and executive positions held
Ms. Li Xiaohong	Non-Executive Director (appointed as Director of BOSHK on 11 January 2019)	Doctor of Laws, Jilin University	Board Secretary, Bank of Shanghai Co., Limited Director, BOSC International Company Limited
Mr. Lin Liqun	Non-Executive Director (appointed as Director of BOSHK on 1 August 2019)	EMBA, China Europe International Business School	Director, BOSC International Company Limited

(e) Committees' functions and composition

The Board has ultimate and overall responsibility for the corporate governance of the Company.

To assist its performance of the role, the following committees are established:

(i) Audit Committee

The Audit Committee exercises oversight over objectivity, credibility and integrity of the financial reporting and other mandatory professional reporting requirements, and the work of the internal and external auditors. The Committee consists of one non-executive director and three independent non-executive directors, and it is chaired by one of the independent non-executive directors. Four Audit Committee meetings were held during 2019.

(ii) Remuneration and Nomination Committee

The Remuneration and Nomination Committee exercises oversight on the Company's remuneration system and its operation, makes recommendation to the Board on the Company's overall remuneration policy and structure, annual salary adjustment and performance bonus, and determines the remuneration package of key management personnel. For nomination function, it includes identifying individuals suitably qualified to become board members and recommend to the selection of individuals nominated for directorships; making recommendation to the board on appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; and performing annual review on the Board's structure, size and composition. With effect from 2 October 2019, one non-executive director and one independent non-executive director of the Company were appointed as members of the Remuneration and Nomination Committee by the Board. After the aforesaid appointment, the Committee consists of two non-executive directors and three independent non-executive directors, and it remains to be chaired by one of the independent non-executive directors. One Remuneration and Nomination Committee meeting were held during 2019.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(e) Committees' functions and composition (continued)

(iii) Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in monitoring the Company's risk profile and the Company's compliance with internal policies and statutory regulations. The Committee consists of three independent non-executive directors, one non-executive director and one executive director, and it is chaired by one of the independent non-executive directors. Four Risk and Compliance Committee meetings were held during 2019.

(iv) Executive Committee

The Executive Committee assists the Board in conducting and managing the day-to-day business and affairs of the Company. The Committee consists of Chief Executive Officer, Head of Operations and Technology, Head of Corporate and Institutional Banking, Chief Risk Officer, Head of Treasury and Head of Finance, and it is chaired by the Chief Executive Officer. Twelve Executive Committee meetings were held during 2019.

(v) Credit Committee

Credit Committee is responsible for credit management. The Committee consists of the Chief Executive Officer, Chief Risk Officer, one of the Head of Corporate and Institutional Banking, Head of Finance and senior staff of Credit Risk Division, and it is chaired by the Chief Risk Officer. Twelve Credit Committee meetings were held during 2019.

(vi) Asset & Liability Committee

Asset & Liability Committee is responsible for monitoring liquidity risk and asset and liability management. The Committee consists of the Chief Executive Officer, Head of Treasury, Head of Operations & Technology, Chief Risk Officer, Head of Finance and Head of Corporate and Institutional Banking, and it is chaired by the Head of Treasury. Six Asset & Liability Committee meetings were held during 2019.

(vii) Operations and Technology Committee

Operations and Technology Committee is responsible for formulating operations policies and procedures to ensure on-going operational efficiency, cost effectiveness and proper controls; reviewing standard service charges and fees; monitoring operational risk issues; formulating system and information technology (IT) policies and practices; ensuring adequate IT control environment; and evaluating cost and effectiveness of IT systems employed by the Company. The Committee consists of the Chief Executive Officer, Chief Risk Officer, Head of Operations and Technology, Head of Finance, Head of Corporate and Institutional Banking, Head of Compliance, Head of Information Technology and Head of Treasury, and it is chaired by the Head of Operations and Technology. Four Operation and Technology Committee meetings were held during 2019.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

1 CORPORATE GOVERNANCE (CONTINUED)

(e) Committees' functions and composition (continued)

(viii) Anti-Money Laundering Committee

Anti-Money Laundering Committee is responsible for ensuring sufficient resources to handle AML compliance issues, and reviewing high-risk customers and relevant statistics. The Committee consists of the Chief Executive Officer, Head of Compliance, Chief Risk Officer, Head of Corporate and Institutional Banking and Head of Operations and Technology, and it is chaired by the Head of Compliance. Four Anti-Money Laundering Committee meetings were held during 2019.

(f) The approach for recruitment and selection of members of the board

Remuneration and Nomination Committee provides oversight of the overall remuneration and nomination matters of the Bank in consistence with its culture, strategy and control environment. Remuneration and Nomination Committee is responsible for identifying individuals suitably qualified to become board members and propose to the board on the selection of individuals nominated for directorship. The appointment of Directors will be considered and approved by the Board based on the nomination of the Remuneration and Nomination Committee. Approval from the HKMA will also be obtained in accordance with the Banking Ordinance.

In order to promote the Board's efficiency and standards of corporate governance, a number of aspects will be considered to identify suitable and qualified candidates to be a Board member, including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc. At the same time, all Board appointments are made on merit, in the context of the skills and experience the Board as a whole required and the various perspectives of Board diversity elements as mentioned above shall also be adequately considered. All Directors possess appropriate experience, competence and personal and professional integrity to discharge their responsibilities effectively.

2 DISCLOSURE ON REMUNERATION

The Company fully complied with, in all material aspects, the requirements set out in the Supervisory Policy Manual module CG-5, namely "Guideline on a Sound Remuneration System V.2" issued by the HKMA in March 2015.

The Remuneration and Nomination Committee is established with specific terms of reference and its membership consists of 3 independent non-executive directors and 2 non-executive directors. The Remuneration and Nomination Committee meets at least once a year to review and make recommendations to the Board of Directors (the "Board") of the Company on the overall remuneration policy and structure, specific remuneration packages and compensation arrangement relating to the appointment of Senior Management and Key Personnel, and on the formulation of the remuneration policy applicable to all employees of the Company. All remuneration actions and decisions made by the Remuneration and Nomination Committee are reported to the Board for ratification. There were no significant changes made to the remuneration policy in 2019.

2 DISCLOSURE ON REMUNERATION (CONTINUED)

The Board and the Remuneration and Nomination Committee provide oversight of the overall remuneration administration of the Company to ensure consistency with its culture, strategy, risk tolerance and control environment. The Remuneration and Nomination Committee reviews the remuneration policy and system at least on an annual basis to ensure the Company's effective human resources management.

For the purpose of this disclosure, the Senior Management and Key Personnel mentioned in this section are defined according to the "Guideline on a Sound Remuneration System" issued by the HKMA. Senior Management comprises Chief Executive Officer and Assistant Chief Executive Officers, who are responsible for the oversight of the Companywide strategy and activities or those of the major business lines. Key Personnel including Chief Risk Officer, Head of Operations and Technology, Head of Finance and Head of Treasury, are senior executives whose duties or activities in the course of their employment involve the assumption of material risk or the taking on material exposures on behalf of the Company.

Design and Structure of the Remuneration Process

The remuneration system of the Company is designed to motivate employee behaviour that supports the Company's overall business goals and objectives, long-term financial soundness and effective risk management. It aims to create long-term value for the Company and to align the remuneration of employees with the Company's profitability and time horizon of risks.

The remuneration package comprises fixed salary and variable remuneration. The objective is to ensure the package is competitive in the market so as to attract, retain and motivate the right talents. The proportion of variable remuneration shall vary according to the staff's roles and responsibilities, as well as performance.

Fixed remuneration refers to base salary, fixed allowances and year-end guaranteed pay (if applicable). Variable remuneration, mainly cash bonus payment, is awarded based on the overall performance of the Company, the relevant business unit and the individual staff member, taking into consideration of the full range of current and potential short-term and longer-term risks connected with the activities of staff which may affect the performance of the Company.

Performance Management and Consideration of Relevant Risks in the Remuneration Process

Performance of individual staff member is assessed against a number of pre-defined and measurable performance goals. The goals are determined according to the job responsibilities and areas of contribution covering both financial and non-financial factors. Financial factors include quantitative measures such as profit, revenue, business turnover or volume. Non-financial factors include criteria such as strict adherence to the code of conduct, internal control policies, compliance requirement and risk management standard. The non-financial factors constitute a significant part of an employee's overall performance measurement. The size and allocation of variable remuneration take into account the full range of current and potential risks associated with the functions and activities conducted by the relevant employee.

CORPORATE GOVERNANCE REPORT (UNAUDITED) (CONTINUED)

2 DISCLOSURE ON REMUNERATION (CONTINUED)

The overall and balanced quality of staff performance is therefore measured and determined not only by financial achievements but also non-financial indicators which form an integral part of the performance management system. For staff within risk control functions, they have to achieve their specific divisional and individual key performance indicators independent of the performance of the business areas which they oversee.

Remuneration Awarded to Senior Management and Key Personnel

	2019	2018
Number of Senior Management and Key Personnel	7	8
	$'000	$'000
Fixed remuneration (see Note below)		
– Cash	13,294	12,605
Variable remuneration		
– Cash	5,175	2,848

Note: The fixed remuneration included employer's contribution to provident fund.

No Senior Management and Key Personnel were awarded guaranteed bonus, sign-on bonus, deferred variable remuneration or severance payment in 2019.