KEXIM ASIA LIMITED

31 December 2019

Directors' Report

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

Principal place of business

KEXIM ASIA LIMITED ("the Company") is a deposit taking company incorporated and domiciled in Hong Kong, and has its registered office and principal place of business at Unit 1805 & 07, 18/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Principal activities

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

Recommended dividend

The directors recommend the payment of a final dividend of USD131,610 (2018: USD113,547) in respect of the year ended 31 December 2019.

Share capital

Details of share capital of the Company are set out in note 21 to the financial statements. There were no movements during the year.

Directors

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

Executive directors

Kwon Minyung	(Resigned on 8 January 2020)
Im Jae Kyun	(Resigned on 2 July 2019)
Huh Jung Ok	(Appointed on 8 January 2020)
Suh Mil Hee	(Appointed on 2 July 2019)
Ok Young Chul	(Appointed on 28 Mar 2017)

Non-executive directors

Jung Doo Wha	(Appointed on 20 April 2018) (Resigned on 19 July 2019)
Lee Jae Rak	(Appointed on 10 October 2018) (Resigned on 19 July 2019)
Gu Ja Young	(Appointed on 19 July 2019)
Hong Sunghoon	(Appointed on 19 July 2019)

Directors (continued)

Independent non-executive director

Jo Sang Kyun	(Appointed on 12 January 2018) (Resigned on 17 January 2020)
Choi Jung Ha	(Appointed on 6 April 2020)

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

At no time during the financial year was the Company, or any of its holding company 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.

Directors' interests in transactions, arrangements or contracts

No contract of significance to which the Company, or any of its holding company or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the financial year or at any time during the financial year.

Compliance with the Banking (Disclosure) Rules

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

The directors are of the view that the financial statements together with the attached unaudited supplementary information on pages 6 to 90 for the year ended 31 December 2019 fully comply with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

Auditors

The board proposed to change the external auditors of the Company for the year 2020. The proposed appointment shall be subject to approval of the board at the coming annual general meeting. KPMG will retire as external auditors with effect upon conclusion of the coming annual general meeting of the company.

By order of the board

Huh Jung Ok, Deputy Managing Director

Hong Kong

28 APR 2020

KPMG

Independent auditor's report to the members of KEXIM ASIA LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of KEXIM ASIA LIMITED ("the Company") set out on pages 6 to 70, which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

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

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

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

KPMG

Independent auditor's report to the members of KEXIM ASIA LIMITED (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

KPMG

Independent auditor's report to the members of KEXIM ASIA LIMITED (continued)

(Incorporated in Hong Kong with limited liability)

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

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

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

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

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

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 APR 2020

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

(Expressed in United States dollars)

	Note	*2019*	*2018**
Interest income	3(a)	$ 15,711,563	$ 13,148,556
Interest expense	3(b)	(10,603,971)	(8,693,606)
Net interest income		$ 5,107,592	$ 4,454,950
Fee and commission income	4(a)	$ 290,776	$ 407,315
Fee and commission expenses	4(b)	(13,254)	(10,766)
Net fee and commission income		$ 277,522	$ 396,549
Net trading gain	5	$ -	$ 285,722
Net loss on foreign exchange		(2,064)	(9,505)
Net gain on sale of debt investment securities at FVOCI	9	435,880	175,857
Other income		3,069	-
		$ 436,885	$ 452,074
Operating income		$ 5,821,999	$ 5,303,573
Operating expenses	6	(2,527,865)	(2,390,234)
Operating profit		$ 3,294,134	$ 2,913,339
Net charge of impairment allowances	8	(195,340)	(195,145)
Profit before taxation		3,098,794	2,718,194
Income tax	10(a)	(466,593)	(447,260)
Profit for the year		$ 2,632,201	$ 2,270,934

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019 (continued)

(Expressed in United States dollars)

	Note	*2019*	*2018**
Profit for the year		$ 2,632,201	$ 2,270,934
Other comprehensive income for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Debt investment securities at FVOCI: net movement in fair value reserve (recycling)	11	2,591,198	(1,686,555)
Total comprehensive income for the year		$ 5,223,399	$ 584,379

*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.

The notes on pages 13 to 70 form part of these financial statements.

Statement of financial position at 31 December 2019

(Expressed in United States dollars)

	Note	*2019*	*2018**
Assets			
Cash and balances with banks and other financial institutions		$ 5,770,310	$ 7,173,048
Loans and advances to banks and other financial institutions	12(a)	35,164,741	30,865,107
Loans and advances to customers	12(a)	234,624,387	230,351,869
Investment securities	13	152,678,700	143,684,671
Deferred tax assets	15(b)	66,746	549,335
Other assets	16	2,219,038	2,432,815
Property, plant and equipment	14	1,051,168	36,186
TOTAL ASSETS		$ 431,575,090	$ 415,093,031
Equity and liabilities			
Liabilities			
Deposits and balances from banks and other financial institutions		$ 200,309,409	$ 177,865,823
Current taxation	15(a)	63,372	67,301
Other liabilities	20	1,720,257	1,694,398
Borrowings from other financial institutions	18	30,000,000	49,941,925
Borrowings from the ultimate holding company	17	121,031,194	113,210,011
Subordinated liabilities	19	14,982,056	14,977,057
Lease liabilities	26	1,023,837	-
Total liabilities		$ 369,130,125	$ 357,756,515

Statement of financial position at 31 December 2019 (continued)

(Expressed in United States dollars)

	Note	*2019*	*2018**
Equity and liabilities (continued)			
Equity			
Share capital	21	$ 30,000,000	$ 30,000,000
Reserves	22	32,444,965	27,336,516
Total equity		$ 62,444,965	$ 57,336,516
TOTAL EQUITY AND LIABILITIES		$ 431,575,090	$ 415,093,031

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

Ok Young Chul)
) Directors
Huh Jung Ok)

*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.

The notes on pages 13 to 70 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2019

(Expressed in United States dollars)

	Attributable to equity shareholders of the Company			
	Share capital	*Retained profits**	*Fair value reserve*	*Total*
Balance at 1 January 2018	$ 30,000,000	$ 26,570,568	$ (404,366)	$ 56,166,202
Impact on transition to HKFRS 9	-	798,730	60,733	859,463
	$ 30,000,000	$ 27,369,298	$ (343,633)	$ 57,025,665
Changes in equity for 2018:				
Profit for the year	$ -	$ 2,270,934	$ -	$ 2,270,934
Other comprehensive income	-	-	(1,686,555)	(1,686,555)
Total comprehensive income	$ -	$ 2,270,934	$ (1,686,555)	$ 584,379
Dividends declared in respect of prior year and paid during the year (note 23)	$ -	$ (273,528)	$ -	$ (273,528)
Balance at 31 December 2018 and 1 January 2019	$ 30,000,000	$ 29,366,704	$ (2,030,188)	$ 57,336,516
Impact on transition to HKFRS 16 (note 2)	-	(1,403)	-	(1,403)
	$ 30,000,000	$ 29,365,301	$ (2,030,188)	$ 57,335,113
Changes in equity for 2019:				
Profit for the year	$ -	$ 2,632,201	$ -	$ 2,632,201
Other comprehensive income	-	-	2,591,198	2,591,198
Total comprehensive income	$ -	$ 2,632,201	$ 2,591,198	$ 5,223,399
Dividends declared in respect of prior year and paid during the year (note 23)	$ -	$ (113,547)	$ -	$ (113,547)
Balance at 31 December 2019	$ 30,000,000	$ 31,883,955	$ 561,010	$ 62,444,965

*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.

The notes on pages 13 to 70 form part of these financial statements.

Cash flow statement for the year ended 31 December 2019

(Expressed in United States dollars)

		2019		2018*
Operating activities				
Profit before taxation	$	3,098,794	$	2,718,194
Adjustments for:				
Interest expense on borrowings		4,384,596		3,309,777
Interest expense on subordinated liabilities		615,532		601,179
Interest expense on lease liabilities		31,068		-
Net charge of impairment losses on loans and advances		197,312		189,853
Net (release)/charge of impairment losses on investment securities		(3,782)		5,292
Net gain on disposal of investment securities		(435,880)		(175,857)
Depreciation		671,487		8,518
Amortisation of premium and fees received as part of effective interest rate adjustment		11,986		(235,834)
Exchange loss on revaluation of lease liabilities		7,667		-
Operating cash flows before changes in working capital	$	8,578,780	$	6,421,122
(Increase)/decrease in operating assets:				
Loans and advances to banks and other financial institutions		(4,272,727)		(1,738,600)
Loans and advances to customers		(4,496,737)		(35,473,683)
Other assets		213,777		(406,249)
(Decrease)/increase in operating liabilities:				
Deposits and balances from banks and other financial institutions, and the ultimate holding company		22,443,586		24,064,993
Derivative financial liabilities		-		(66)
Other liabilities		25,859		(452,014)
Cash generated from/(used in) operations	$	22,492,538	$	(7,584,497)
Tax paid				
– Hong Kong Profits Tax Paid		(500,669)		(382,972)
Net cash generated from/(used in) operating activities	$	21,991,869	$	(7,967,469)

Cash flow statement for the year ended 31 December 2019 (continued)

(Expressed in United States dollars)

	2019	*2018**
Investing activities		
Acquisition of property, plant and equipment	$ (20,728)	$ (33,789)
Proceeds from sale of investment securities	91,089,413	132,032,558
Acquisition of investment securities	(96,551,832)	(114,903,290)
Net cash (used in)/generated from investing activities	$ (5,483,147)	$ 17,095,479
Financing activities		
Repayments of borrowings	$ (12,120,742)	$ (4,736,245)
Changes of subordinated liabilities	4,999	(22,943)
Interest paid on subordinated liabilities	(617,355)	(622,033)
Interest paid on borrowings	(4,382,773)	(2,348,988)
Capital element of lease rentals paid	(650,974)	-
Interest element of lease rentals paid	(31,068)	-
Dividend paid	(113,547)	(273,528)
Net cash used in financing activities	$ (17,911,460)	$ (8,003,737)
Net (decrease)/increase in cash and cash equivalents	$ (1,402,738)	$ 1,124,273
Cash and cash equivalents at 1 January	7,173,048	6,048,775
Cash and cash equivalents at 31 December	$ 5,770,310	$ 7,173,048
Cash flow from operating activities included:		
Interest received	$ 15,838,526	$ 12,313,583
Interest paid on deposits from banks and other financial institutions	(6,011,408)	(5,270,534)

*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.

The notes on pages 13 to 70 form part of these financial statements.

Notes to the financial statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies

(a) *Statement of compliance*

These 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 Company 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 Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) *Basis of preparation of financial statements*

The measurement basis used in the preparation of the financial statements is the historical cost basis except certain financial instruments (see note 1(c)(ii)) as explained in the accounting policies set out below.

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 source of estimation uncertainty are discussed in note 31.

1 Significant accounting policies (continued)

(c) Financial assets and financial liabilities

(i) Initial recognition

The Company initially recognizes loans and advances, borrowings, subordinated liabilities and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

From the date of initial recognition, any gains and losses arising from changes in fair value of the financial assets or financial liabilities measured at fair value are recorded.

Accrued contractual interests from financial assets and liabilities are presented as accrued interest receivables and payables separately in the financial statements.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1 Significant accounting policies (continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

1 Significant accounting policies (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;

- leverage features;

- prepayment and extension terms;

- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. When (and only when) the Company changes its business model for managing financial assets, it reclassifies all affected financial assets in accordance with the new business model. The reclassification should be applied prospectively from the 'reclassification date', which is defined as, 'the first day of the first reporting period following the change in business model that results in reclassifying financial assets'. Accordingly, any previously recognised gains, losses or interest will not be restated.

If a financial asset is reclassified out of the amortised cost measurement category and into the FVTPL or FVOCI measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss (if reclassification as FVTPL measurement category) or is recognised in other comprehensive income (if reclassification as FVOCI measurement category).

If a financial asset is reclassified out of the FVOCI measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost.

If a financial asset is reclassified out of the FVOCI measurement category and into the FVTPL measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

1 Significant accounting policies (continued)

If a financial asset is reclassified out of the FVTPL measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If an entity reclassifies a financial asset out of the FVTPL measurement category and into the FVOCI measurement category, the financial asset continues to be measured at fair value and subsequent changes in fair value will be recognised in other comprehensive income.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

The Company has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or

- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(iii) Fair value measurement

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of financial instruments is based on, where available, their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

When one is available, the fair value of an instrument is measured using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

1 Significant accounting policies (continued)

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Company uses the weighted average or first-in first-out method, where appropriate, to determine realised gains and losses to be recognised in the profit or loss on derecognition.

(v) Offsetting

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

(vi) Derivatives

Derivatives are recognised initially and are subsequently remeasured, at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract, when they meet the definition of a derivative on a standalone basis.

Derivatives may be embedded in another contractual arrangement (a host contract). The Company accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of HKFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

1 Significant accounting policies (continued)

(d) Property, plant and equipment and depreciation

Property, plant and equipment held for own use are stated at cost less accumulated depreciation and impairment losses (see note 1(f)).

Depreciation charge is provided monthly on straight-line basis in client's accounting system. No depreciation is charged for month of acquisition. The estimated useful lives of the remaining fixed assets are as follows:

- Leasehold Improvements	3 years
- Computer Equipment	3 - 5 years
- Furniture and fixtures	3 - 5 years
- Motor Vehicles	5 years
- Premises, properties and vehicles leased for own use	Over the unexpired term of lease

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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. Both the useful life of an asset and its residual value, if any are reviewed annually.

(e) Credit losses and impairment of financial assets

The Company recognises loss allowances for expected credit losses ("ECLs") on the following financial instruments that are not measured at FVTPL:

- loan and advances;
- investment securities; and
- loan commitments issued.

Derivative financial assets measured at fair value, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flow due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

For undrawn commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Company if the holder of the undrawn commitment draws down on the loan and (ii) the cash flows that the Company expects to receive if the loan is drawn down.

1 Significant accounting policies (continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof;

- variable-rate financial assets: current effective interest rate;

- undrawn commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

In measuring ECLs, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

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

Stage	***Description***	***Impairment Loss***
1	Credit risk on the financial instrument has not increased significantly since initial recognition	12-month ECL
2	Credit risk on the financial instrument has increased significantly since initial recognition	Lifetime ECL
3	Financial instruments that are considered as credit-impaired	Lifetime ECL

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date.

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Company recognises an impairment allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the impairment allowance is measured at an amount equal to lifetime ECLs.

1 Significant accounting policies (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including an undrawn commitment) has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Company considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held). The Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available); and

- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Company.

For undrawn commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Company becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of an undrawn commitment, the Company considers changes in the risk of default occurring on the loans and advances to which the undrawn commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are company based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through an impairment allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income recognised in accordance with note 1(j) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired (referred to as "Stage 3 financial assets"), in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less impairment allowance) of the financial asset.

1 Significant accounting policies (continued)

At each reporting date, the Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(f) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment 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.

(i) 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

1 Significant accounting policies (continued)

(ii) Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

(iii) 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.

(g) Repurchase and reverse repurchase transactions

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

Securities purchased under agreements to resell (reverse repurchase agreements) are reported as receivables and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest method.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other financial institutions, and short-term highly liquid 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.

(i) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate 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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 Significant accounting policies (continued)

(j) Revenue

Interest income

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

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

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

Fee and commission income

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

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

Net trading income

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

1 Significant accounting policies (continued)

(k) Leased assets

At inception of a contract, the Company 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

At the lease commencement date, the Company 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. The Company has no leases that meets the definition of short-term leases or leases of low-value assets. When the Company enters into a lease in respect of a low-value asset, the Company 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 located, 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(d)).

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 Company'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 Company 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.

In the statement of financial position, the Company presents right-of-use assets within the same line item as similar underlying assets and presents lease liabilities separately.

1 Significant accounting policies (continued)

(B) Policy applicable prior to 1 January 2019

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

Where the Company had the use of other 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.

(l) 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 comprehensive income or, in which case they are recognised in other comprehensive income or directly in equity.

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.

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. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the Company.

1 Significant accounting policies (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each statement of financial position date and is reduced to the extent that it is no longer probable that sufficient taxable profit 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 profit will be available.

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.

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 includes 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 assets 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 limited exceptions to recognition of deferred tax assets and liabilities relevant to the Company are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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 profit 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 profit will be available.

1 Significant accounting policies (continued)

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 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 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.

(m) Employee benefits

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

(ii) Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the statement of profit or loss as incurred.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into United States dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars 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 into United States dollar using the foreign exchange rates ruling at the transaction dates. 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.

1 Significant accounting policies (continued)

(o) Related parties

(a) A person, or a close member of that person's family, is related to the Company if that person:

  (i) has control or joint control over the Company;

  (ii) has significant influence over the Company; or

  (iii) is a member of the key management personnel of the Company or the Company's parent.

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

  (i) The entity and the Company 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 Company or an entity related to the Company.

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company'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 Company.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company 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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Company has initially applied HKFRS 16 as from 1 January 2019. The Company 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.

The Company 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 Company 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.

2 Changes in accounting policies (continued)

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 Company 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 which are exempt. As far as the Company is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 14(b). For an explanation of how the Company applies lessee accounting, see note 1(k)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Company 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 2.54%.

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

(i) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Company 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

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

2 Changes in accounting policies (continued)

The following table reconciles the operating lease commitments as disclosed in note 25(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 $
Operating lease commitments at 31 December 2018	1,148,629
Less: total future interest expenses	(40,216)
Total lease liabilities recognised at 1 January 2019	1,108,413

The total lease liabilities recognised at 1 January 2019 refers to the present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount as if HKFRS 16 had been applied since the commencement dates, but discounted using the Company's incremental borrowing rate at the date of initial application.

The following table summarises the impacts of the adoption of HKFRS 16 on the Company's statement of financial position:

	Carrying amount at 31 December 2018	*Capitalisation of operating lease contracts*	*Carrying amount at 1 January 2019*
Line items in the statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	36,186	1,070,824	1,107,010
Lease liabilities	-	1,108,413	1,108,413
Net assets / (liabilities)	36,186	(37,589)	(1,403)

2 Changes in accounting policies (continued)

c. *Impact on the financial result and cash flows of the Company*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Company as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Company's statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Company as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

3 Interest income and interest expense

(a) Interest income

	2019	*2018*
Investment securities at amortised cost or FVOCI	$ 4,773,798	$ 4,265,621
Loans and advances to banks and other financial institutions	1,049,793	719,270
Loans and advances to customers	9,887,972	8,163,665
	$ 15,711,563	$ 13,148,556

(b) Interest expense

	2019	*2018**
Deposits from banks and other financial institutions	$ 5,572,775	$ 4,782,650
Borrowings	4,384,596	3,309,777
Subordinated liabilities	615,532	601,179
Interest on lease liabilities	31,068	-
	$ 10,603,971	$ 8,693,606

*Note: The Company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated.

4 Fee and commission income and expenses

(a) Fee and commission income

	2019	*2018*
Arrangement and management fee	$ 290,776	$ 407,315

(b) Fee and commission expenses

	2019	*2018*
Foreign exchange transaction fees	$ 13,254	$ 10,766

5 Net trading gain

	2019	*2018*
Gains less losses from derivatives	$ -	$ 285,722

6 Operating expenses

	2019	*2018*
(a) Staff costs		
Salaries and other benefits (of which operating lease charges in respect of accommodation provided to staff were $348,034 in 2018)	$ 1,202,448	$ 1,523,529
Contributions to Mandatory Provident Fund	10,989	10,816
	$ 1,213,437	$ 1,534,345
(b) Depreciation	$ 671,487	$ 8,518
(c) Other operating expenses		
Rent and rates	$ 14,623	$ 316,993
Auditor's remuneration	187,266	101,203
Others	441,052	429,175
	$ 642,941	$ 847,371
	$ 2,527,865	$ 2,390,234

7 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	*2018*
Directors' fees	$ 47,945	$ 42,704
Salaries, allowances and benefits in kind	358,399	474,146
	$ 406,344	$ 516,850

8 Net charge of impairment allowances

	2019	*2018*
Loans and advances to banks and other financial institutions	$ (26,907)	$ 27,661
Loans and advances to customers	224,219	171,948
Investment securities	(3,782)	5,292
Loan commitments	1,810	(9,756)
Net charge of impairment allowances	$ 195,340	$ 195,145

9 Net gain on disposal of investment securities

	2019	*2018*
Net gain on disposal of debt investment securities measured at FVOCI	$ 435,880	$ 175,857
	$ 435,880	$ 175,857

10 Income tax

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

	2019	2018
Current tax - Hong Kong Profits Tax		
Provision for the year	$ 520,378	$ 475,408
Over-provision in respect of prior year	(23,638)	(1,242)
	$ 496,740	$ 474,166
Deferred tax		
Origination and reversal of temporary differences	(30,147)	(26,906)
	$ 466,593	$ 447,260

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, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19. The Company is eligible for the maximum reduction of $20,000 (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).

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

	2019	2018
Profit before taxation	$ 3,098,794	$ 2,718,194
Notional tax on profit before taxation, calculated at the standard rate of 16.5% (2018: 16.5%)	$ 511,301	$ 448,502
Over-provision in respect of prior year	(23,638)	(1,242)
Others	(21,070)	-
Actual tax expense	$ 466,593	$ 447,260

11 Other comprehensive income

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

	2019			*2018*		
	Before-tax amount	*Tax benefit*	*Net-of-tax amount*	*Before-tax amount*	*Tax benefit*	*Net-of-tax amount*
Debt investment securities measured at FVOCI: net movement in fair value reserve (recycling)	$ 3,103,934	$ (512,736)	$ 2,591,198	$ (2,020,872)	$ 334,317	$ (1,686,555)

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

	2019	*2018*
Financial assets at FVOCI:		
Changes in fair value recognised during the year	$ 3,523,769	$ (1,869,912)
Recognition of ECLs on FVOCI investments	(3,560)	5,292
Income tax effect	(512,736)	334,317
Reclassification adjustments for amounts transferred to profit or loss		
- gains on disposal	(435,880)	(175,857)
- amortisation of previous revaluation losses on FVOCI reclassified as amortised cost, net of deferred tax	19,605	19,605
Net movement in the fair value reserve during the year recognised in other comprehensive income	$ 2,591,198	$ (1,686,555)

12 Loans and advances

(a) Loans and advances less impairment

	2019	*2018*
Gross loans and advances to banks and other financial institutions	$ 35,198,503	$ 30,925,776
Less: Impairment allowances		
- Stage 1	(33,762)	(60,669)
- Stage 2	-	-
- Stage 3	-	-
	$ 35,164,741	$ 30,865,107

	2019	*2018*
Gross loans and advances to customers	$ 235,448,604	$ 230,951,867
Less: Impairment allowances		
- Stage 1	(824,217)	(599,998)
- Stage 2	-	-
- Stage 3	-	-
	$ 234,624,387	$ 230,351,869

	2019	*2018*
Net loans and advances to:		
- banks and other financial institutions	$ 35,164,741	$ 30,865,107
- customers	234,624,387	230,351,869
	$ 269,789,128	$ 261,216,976

12 Loans and advances to customers (continued)

(b) Movement in impairment allowances

	2019			
	12-month ECL (Stage 1)	*Lifetime ECL not credit-impaired (Stage 2)*	*Lifetime ECL credit-impaired (Stage 3)*	*Total*
At 1 January 2019	$ 660,667	$ -	$ -	$ 660,667
Charged to profit or loss	197,312	-	-	197,312
At 31 December 2019	$ 857,979	$ -	$ -	$ 857,979

	2018			
	12-month ECL (Stage 1)	*Lifetime ECL not credit-impaired (Stage 2)*	*Lifetime ECL credit-impaired (Stage 3)*	*Total*
At 1 January 2018	$ 461,058	$ -	$ -	$ 461,058
Charged to profit or loss	199,609	-	-	199,609
At 31 December 2018	$ 660,667	$ -	$ -	$ 660,667

13 Investment securities

	2019 Debt securities at FVOCI	*2019* Debt securities at amortised cost	*2019* Total
Analysed by type of issuer:			
Banks and other financial institutions	$ 103,371,452	$ 4,839,011	$ 108,210,463
Corporate entities	44,470,234	-	44,470,234
	$ 147,841,686	$ 4,839,011	$ 152,680,697
Debt securities:			
- Listed in Hong Kong	$ 35,480,712	$ -	$ 35,480,712
- Listed outside Hong Kong	112,360,974	4,839,011	117,199,985
	$ 147,841,686	$ 4,839,011	$ 152,680,697
- Unlisted	$ -	$ -	$ -
	$ 147,841,686	$ 4,839,011	$ 152,680,697
Less: Impairment allowances			
- Stage 1		$ (1,997)	$ (1,997)
- Stage 2		-	-
- Stage 3		-	-
		$ (1,997)	$ (1,997)
Total debt securities	$ 147,841,686	$ 4,837,014	$ 152,678,700

Note: The impairment allowances for debt securities at FVOCI contains only stage 1 of USD 62,465 as at 31 December 2019.

13 Investment securities (continued)

	2018		
	Debt securities at FVOCI	*Debt securities at amortised cost*	*Total*
Analysed by type of issuer:			
Banks and other financial institutions	$ 94,776,811	$ -	$ 94,776,811
Corporate entities	44,095,081	4,814,998	48,910,079
	$ 138,871,892	$ 4,814,998	$ 143,686,890
Debt securities:			
- Listed in Hong Kong	$ 33,267,266	$ -	$ 33,267,266
- Listed outside Hong Kong	103,602,786	4,814,998	108,417,784
	$ 136,870,052	$ 4,814,998	$ 141,685,050
- Unlisted	$ 2,001,840	$ -	$ 2,001,840
	$ 138,871,892	$ 4,814,998	$ 143,686,890
Less: Impairment allowances			
- Stage 1		$ (2,219)	$ (2,219)
- Stage 2		-	-
- Stage 3		-	-
		$ (2,219)	$ (2,219)
Total debt securities	$ 138,871,892	$ 4,812,779	$ 143,684,671

Note: The impairment allowances for debt securities at FVOCI contains only stage 1 of USD 66,025 as at 31 December 2018.

14 Property, plant and equipment

(a) Movement during the year

	2019					
	Leasehold improvements	Computer equipment	Furniture and Fixtures	Motor vehicle	Premise, properties and vehicles leased for own use	Total
Cost or valuation:						
At 31 December 2018	$ 157,732	$ 385,333	$ 33,295	$ 66,368	$ -	$ 642,728
Impact on initial application of HKFRS 16	-	-	-	-	1,212,427	1,212,427
At 1 January 2019	$ 157,732	$ 385,333	$ 33,295	$ 66,368	$ 1,212,427	$ 1,855,155
Additions	-	10,795	9,933	-	558,731	579,459
Disposals	-	(1,482)	(3,726)	(66,368)	(67,863)	(139,439)
At 31 December 2019	$ 157,732	$ 394,646	$ 39,502	$ -	$ 1,703,295	$ 2,295,175
Accumulated depreciation:						
At 31 December 2018	$ 157,732	$ 349,339	$ 33,103	$ 66,368	$ -	$ 606,542
Impact on initial application of HKFRS 16	-	-	-	-	105,417	105,417
At 1 January 2019	$ 157,732	$ 349,339	$ 33,103	$ 66,368	$ 105,417	$ 711,959
Charge for the year	-	11,764	192	-	659,531	671,487
Written back on disposals	-	(1,482)	(3,726)	(66,368)	(67,863)	(139,439)
At 31 December 2019	$ 157,732	$ 359,621	$ 29,569	$ -	$ 697,085	$ 1,244,007
Net book value:						
At 31 December 2019	$ -	$ 35,025	$ 9,933	$ -	$ 1,006,210	$ 1,051,168

	2018					
	Leasehold improvements	Computer equipment	Furniture and Fixtures	Motor vehicle	Premise, properties and vehicles leased for own use	Total
Cost or valuation:						
At 1 January 2018	$ 157,732	$ 351,544	$ 33,295	$ 66,368	$ -	$ 608,939
Additions	-	33,789	-	-	-	33,789
At 31 December 2018	$ 157,732	$ 385,333	$ 33,295	$ 66,368	$ -	$ 642,728
Accumulated depreciation:						
At 1 January 2018	$ 157,732	$ 341,014	$ 32,910	$ 66,368	$ -	$ 598,024
Charge for the year	-	8,325	193	-	-	8,518
At 31 December 2018	$ 157,732	$ 349,339	$ 33,103	$ 66,368	$ -	$ 606,542
Net book value:						
At 31 December 2018	$ -	$ 35,994	$ 192	$ -	$ -	$ 36,186

14 Property, plant and equipment(continued)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019	*1 January 2019*
Premise, properties and vehicles leased for own use, carried at depreciated cost	1,006,210	1,107,010

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

	2019	*2018* *Note
Depreciation charge of right-of-use assets by class of underlying asset:		
Premise, properties and vehicles leased for own use	659,531	-
Interest on lease liabilities (note 3(b))	31,068	-

*Note: The Company has initially applied HKFRS 16 using the modified retrospective approach at 1 January 2019. The Company as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

During the year, additions to right-of-use assets were $558,731. This amount is related to the capitalised lease payments payable under new tenancy agreements.

14 Property, plant and equipment (continued)

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019	*2018**
Within operating cash flows	-	651,274
Within financing cash flows	682,042	-
	682,042	651,274

*Note: The Company has initially applied HKFRS 16 using the modified retrospective approach at 1 January 2019. Previously, cash payments under operating leases made by the Company as a lessee of $651,274 were classified as operating activities in the cash flow statement. Under HKFRS 16, rentals paid on leases are now split into capital element and interest element and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

The maturity analysis of lease liabilities are set out in note 27.

15 Taxation in the statement of financial position

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

		2019		*2018*
Provision for Hong Kong Profits Tax for the year	$	(520,378)	$	(475,408)
Provisional Profits Tax paid		457,006		408,107
	$	(63,372)	$	(67,301)

15 Taxation in the statement of financial position (continued)

(b) Deferred tax assets/(liabilities) recognised:

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

	Depreciation in excess of related depreciation allowance	*Impairment allowance*	*Fair value adjustment for financial assets at FVOCI*	*Total*
At 1 January 2019	$ 14,078	$ 121,034	$ 414,223	$ 549,335
(Charged)/credited to profit or loss	(2,084)	32,231	-	30,147
Credit to reserves	-	-	(512,736)	(512,736)
At 31 December 2019	$ 11,994	$ 153,265	$ (98,513)	$ 66,746
At 1 January 2018	$ 19,371	$ 246,668	$ 79,906	$ 345,945
Impact on initial application of HKFRS 9	-	(157,833)	-	(157,833)
At 1 January 2018	$ 19,371	$ 88,835	$ 79,906	$ 188,112
(Charged)/credited to profit or loss	(5,293)	32,199	-	26,906
Credited reserves	-	-	334,317	334,317
At 31 December 2018	$ 14,078	$ 121,034	$ 414,223	$ 549,335

Note: Upon the initial application of HKFRS 9, the Company has derecognised deferred tax assets of USD157,833 on the release of impairment allowances recognised under the ECL model (see note 1(f)).

16 Other assets

	2019	*2018*
Accrued interest receivable	$ 1,801,323	$ 2,053,037
Others	417,715	379,778
	$ 2,219,038	$ 2,432,815

17 Borrowings from the ultimate holding company

The analysis of the carrying amount of borrowings from the ultimate holding company is as follows:

	2019	*2018*
Borrowings from the ultimate holding company		
- short-term borrowings	$ 17,031,194	$ 91,000,000
- long-term borrowings	104,000,000	22,210,011
	$ 121,031,194	$ 113,210,011

At 31 December 2019, the short-term borrowings from the ultimate holding company bear interest at 3-month LIBOR plus a spread of 0.106% to 0.5% and are repayable on 6 April 2020 (2018: the short-term borrowings from the ultimate holding company bear interest at 3-month LIBOR plus a spread of 0.35% to 0.38% and are repayable on 26 June 2019).

At 31 December 2019, the long-term borrowings from the ultimate holding company bear interest at 3-month LIBOR plus a spread of 0.35% and are repayable on 23 April 2021 (2018: the long-term borrowings from the ultimate holding company bear interest at 3-month LIBOR plus a spread of 0.39% and are repayable on 6 April 2020).

18 Borrowings from other financial institutions

The analysis of the carrying amount of borrowings from other financial institutions is as follows:

	2019	*2018*
Borrowings from other financial institutions		
- short-term borrowing	$ 30,000,000	$ 49,941,925
- long-term borrowing	-	-
	$ 30,000,000	$ 49,941,925

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

At 31 December 2018, the short-term borrowing from other financial institutions comprise USD20 million bearing interest at LIBOR plus a spread of 0.5% repayable on 25 February 2019, USD 30 million bearing interest at 3 month LIBOR plus a spread of 0.5% repayable on 23 August 2019.

19 Subordinated liabilities

The analysis of the carrying amount of subordinated liabilities is as follows:

	2019	*2018*
Borrowings from the ultimate holding company		
- Subordinated floating rate at 3-month LIBOR plus 1.6% thereafter until 27 September 2028 (2018: 1.6%)	$ 14,982,056	$ 14,977,057

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

20 Other liabilities

	2019	*2018*
Accrued interest payable	$ 979,878	$ 1,414,656
Others	740,379	279,742
	$ 1,720,257	$ 1,694,398

21 Share capital

	2019 No. of shares	2019 Amount	2018 No. of shares	2018 Amount
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	30,000,000	$ 30,000,000	30,000,000	$ 30,000,000

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

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

22 Reserves

	Retained profits	Fair value reserve	Total
At 1 January 2019	$ 29,366,704	$ (2,030,188)	$ 27,336,516
Impact on transition to HKFRS 16	(1,403)	-	(1,403)
At 1 January 2019	$ 29,365,301	$ (2,030,188)	$ 27,335,113
Dividends approved in respect of the previous year	(113,547)	-	(113,547)
- Profit for the year	2,632,201	-	2,632,201
- Change in fair value and impairment loss, net of deferred tax	-	3,007,473	3,007,473
- Gains on disposal	-	(435,880)	(435,880)
- Amortisation of previous revaluation losses on investments measured at FVOCI reclassified as investments measured at amortised cost, net of deferred tax	-	19,605	19,605
At 31 December 2019	$ 31,883,955	$ 561,010	$ 32,444,965

22 Reserves (continued)

	Retained profits	*Fair value reserve*	*Total*
At 1 January 2018	$ 26,570,568	$ (404,366)	$ 26,166,202
Impact on transition to HKFRS 9	798,730	60,733	859,463
At 1 January 2018	$ 27,369,298	$ (343,633)	$ 27,025,665
Dividends approved in respect of the previous year	(273,528)	-	(273,528)
- Profit for the year	2,270,934	-	2,270,934
- Change in fair value and impairment loss, net of deferred tax	-	(1,530,303)	(1,530,303)
- Gains on disposal	-	(175,857)	(175,857)
- Amortisation of previous revaluation losses on investments measured at FVOCI reclassified as investments measured at amortised cost, net of deferred tax	-	19,605	19,605
At 31 December 2018	$ 29,366,704	$ (2,030,188)	$ 27,336,516

Nature and purpose of reserves

(i) Fair value reserve

This reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI and the impairment allowances until the securities are derecognised are dealt with in accordance with the accounting policies in notes 1(c) and 1(f).

(ii) Regulatory reserve

As at 31 December 2019, the Company has earmarked $1,850,585 (2018: $1,955,052) as regulatory reserve from retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

23 Dividends payable to equity shareholders attributable to the year

	2019	2018
Final dividend in respect of the current financial year proposed after the end of the reporting period of $0.0044 per ordinary share (2018: $0.0038 per ordinary share)	$ 131,610	$ 113,547

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

	2019	2018
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.0038 per ordinary share (2018: $0.0091 per ordinary share)	$ 113,547	$ 273,528

24 Assets pledged as security

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

	2019	2018
Secured liabilities (included in deposits and balances from banks and other financial institutions and accrued interest payable)	$ 26,423,359	$ 78,263,754
Assets pledged:		
- Investments	$ 27,960,293	$ 82,570,051

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

25 Contingent liabilities and commitments

(a) Contingent liabilities and commitments

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

	2019	2018
Loan commitments		
- with an original maturity of under one year	$ 1,250,000	$ 4,853,000
- with an original maturity of one year and over	7,500,000	5,000,000
	$ 8,750,000	$ 9,853,000
Credit risk weighted amount	$ 3,250,000	$ 3,470,600

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

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

(b) Lease commitments

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

Within 1 year	$ 436,401
After 1 year but within 5 years	712,228
	$ 1,148,629

The Company is the lessee in respect premises and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Company has initially applied HKFRS 16 using the modified retrospective approach. 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(k), and the details regarding the Company's future lease payments are disclosed in note 26.

26 Lease liabilities

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		*1 January 2019**		*31 December 2018**	
	Present value of the lease payments	*Total lease payments*	*Present value of the lease payments*	*Total lease payments*	*Present value of the lease payments*	*Total lease payments*
Within 1 year	558,222	565,776	430,670	436,401	-	-
After 1 year but within 2 years	394,838	409,081	390,787	396,180	-	-
After 2 years but within 5 years	70,777	76,847	286,956	316,048	-	-
After 5 years	-	-	-	-	-	-
	465,615	485,928	677,743	712,228	-	-
	1,023,837	1,051,704	1,108,413	1,148,629	-	-
Less: total future interest expenses		(27,867)		(40,216)		-
Present value of lease liabilities		1,023,837		1,108,413		-

*Note: The Company has initially applied HKFRS 16 using the modified retrospective approach at 1 January 2019. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

27 Financial risk management

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

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

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

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

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

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

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

27 Financial risk management (continued)

(a) Credit risk management

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

Corporate credit risk

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

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

Credit risk for treasury transactions

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

Credit-related commitments

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

Concentration of credit risk

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

27 Financial risk management (continued)

(i) Maximum exposure

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

	2019	2018
Cash and balances with banks and other financial institutions	$ 5,770,310	$ 7,173,048
Loans and advances to banks and other financial institutions	35,164,741	30,865,107
Loans and advances to customers	234,624,387	230,351,869
Investment securities	152,678,700	143,686,890
Loan commitments and other credit related commitments	8,750,000	9,853,000
	$ 436,988,138	$ 421,929,914

(ii) Credit quality of loans and advances

Loans and advances to banks and other financial institutions are only to banks and other financial institutions with good credit standing. At 31 December 2019 and 2018, no loans and advances to banks and other financial institutions are impaired.

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

	2019				2018
Loans and advances to banks and other financial institutions at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
Pass	$ 35,198,503	$ -	$ -	$ 35,198,503	$ 30,925,776
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Impairment allowance	(33,762)	-	-	(33,762)	(60,669)
Carrying amount	$ 35,164,741	$ -	$ -	$ 35,164,741	$ 30,865,107

	2019				2018
Loans and advances to customers at amortised cost	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
Pass	$ 235,448,604	$ -	$ -	$ 235,448,604	$ 230,951,867
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Impairment allowance	(824,217)	-	-	(824,217)	(599,998)
Carrying amount	$ 234,624,387	$ -	$ -	$ 234,624,387	$ 230,351,869

27 Financial risk management (continued)

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

As at 31 December 2019, there were no overdue or impaired loans and advances (2018: Nil).

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

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

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

	2019				*2018*
Debt investments at amortised cost (2018: Debt investments at amortised cost)	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
AA+ to AA-	$ 4,839,011	$ -	$ -	$ 4,839,011	$ 4,814,998
A+ to A-	-	-	-	-	-
BBB+ to BBB-	-	-	-	-	-
Unrated	-	-	-	-	-
Impairment allowance	(1,997)	-	-	(1,997)	(2,219)
Carrying amount	$ 4,837,014	$ -	$ -	$ 4,837,014	$ 4,812,779

	2019				*2018*
Debt investments at FVOCI (2018: Debt investments at FVOCI)	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Total*
AA+ to AA-	$ 30,250,340	$ -	$ -	$ 30,250,340	$ 29,563,170
A+ to A-	68,612,622	-	-	68,612,622	77,099,741
BBB+ to BBB-	48,978,724	-	-	48,978,724	30,207,141
Unrated	-	-	-	-	2,001,840
Carrying amount	$ 147,841,686	$ -	$ -	$ 147,841,686	$ 138,871,892

As at 31 December 2019, there were no overdue or impaired debt investments (2018: Nil).

27 Financial risk management (continued)

(b) Market risk management

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

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

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

(i) Foreign currency risk

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

(ii) Interest rate risk

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

27 Financial risk management (continued)

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

	2019						
	Effective interest rate	*Total*	*3 months or less*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Non-interest bearing*
Assets							
Cash and balances with banks and other financial institutions		$ 5,770,310	$ -	$ -	$ -	$ -	$ 5,770,310
Loans and advances to customers	3.45%	234,624,387	218,923,048	15,087,950	613,389	-	-
Loans and advances to banks and other financial institutions	2.84%	35,164,741	35,164,741	-	-	-	-
Investment securities	2.77%	152,678,700	118,396,982	-	26,113,335	8,168,383	-
Non-interest bearing assets		3,336,952	-	-	-	-	3,336,952
Total assets		$ 431,575,090	$ 372,484,771	$ 15,087,950	$ 26,726,724	$ 8,168,383	$ 9,107,262
Liabilities							
Deposits and balances from banks and other financial institutions	2.38%	$ 200,309,409	$ 81,525,934	$ 118,783,475	$ -	$ -	$ -
Subordinated liabilities	3.55%	14,982,056	14,982,056	-	-	-	-
Borrowings from the ultimate holding company	1.96%	121,031,194	121,031,194	-	-	-	-
Borrowings from other financial institutions	2.31%	30,000,000	30,000,000	-	-	-	-
Lease liabilities	2.54%	1,023,837	1,023,837	-	-	-	-
Non-interest bearing liabilities		1,783,629	-	-	-	-	1,783,629
Total liabilities		$ 369,130,125	$ 248,563,021	$ 118,783,475	$ -	$ -	$ 1,783,629
Asset-liabilities gap			$ 123,921,750	$ (103,685,525)	$ 26,726,724	$ 8,168,383	
Interest rate sensitivity gap			$ 123,921,750	$ (103,685,525)	$ 26,726,724	$ 8,168,383	

27 Financial risk management (continued)

	*2018**						
	Effective interest rate	*Total*	*3 months or less*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Non-interest bearing*
Assets							
Cash and balances with banks and other financial institutions		$ 7,173,048	$ -	$ -	$ -	$ -	$ 7,173,048
Loans and advances to customers	4.12%	230,351,869	214,194,226	13,897,577	2,260,066	-	-
Loans and advances to banks and other financial institutions	2.96%	30,865,107	27,465,828	3,399,279	-	-	-
Investment securities	3.21%	143,684,671	85,241,227	13,454,025	40,176,640	4,812,779	-
Non-interest bearing assets		3,018,336	-	-	-	-	3,018,336
Total assets		$ 415,093,031	$ 326,901,281	$ 30,750,881	$ 42,436,706	$ 4,812,779	$ 10,191,384
Liabilities							
Deposits and balances from banks and other financial institutions	3.03%	$ 177,865,823	$ 127,865,823	$ 50,000,000	$ -	$ -	$ -
Subordinated liabilities	4.43%	14,977,057	14,977,057	-	-	-	-
Borrowings from the ultimate holding company	2.45%	113,210,011	113,210,011	-	-	-	-
Borrowings from other financial institutions	3.12%	49,941,925	49,941,925	-	-	-	-
Non-interest bearing liabilities		1,761,699	-	-	-	-	1,761,699
Total liabilities		$ 357,756,515	$ 305,994,816	$ 50,000,000	$ -	$ -	$ 1,761,699
Asset-liabilities gap			$ 20,906,465	$ (19,249,119)	$ 42,436,706	$ 4,812,779	
Interest rate sensitivity gap			$ 20,906,465	$ (19,249,119)	$ 42,436,706	$ 4,812,779	

*Note: The Company has initially applied HKFRS 16 using the modified retrospective approach at 1 January 2019. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

27 Financial risk management (continued)

(iii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 (2018: 100) basis points in interest rates, with all other variables held constant, would increase/decrease the Company's profit after tax and retained profits by approximately $1,324,999 and $1,324,999 respectively (2018: $1,003,227 and $1,003,227 respectively).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 (2018: 100) basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Company at the end of the reporting period, the impact on the Company's profit after tax and retained profits is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(c) Liquidity risk management

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

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

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

27 Financial risk management (continued)

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

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

	2019							
	Total	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*	*Undated*
Assets								
Cash and balances with banks and other financial institutions	$ 5,770,310	$ 5,770,310	$ -	$ -	$ -	$ -	$ -	$ -
Loans and advances to customers	234,624,387	9,048,275	-	13,436,262	100,401,148	97,674,453	14,064,249	-
Loans and advances to banks and other financial institutions	35,164,741	-	-	2,998,047	8,704,958	23,461,736	-	-
Investment securities	152,678,700	-	-	3,500,420	3,010,680	127,905,617	18,261,983	-
Other assets	3,336,952	-	836,395	883,342	176,791	160,560	-	1,279,864
Total assets	$ 431,575,090	$ 14,818,585	$ 836,395	$ 20,818,071	$ 112,293,577	$ 249,202,366	$ 32,326,232	$ 1,279,864
Liabilities								
Deposits and balances from banks and other financial institutions	$ 200,309,409	$ -	$ 71,000,000	$ 10,525,934	$ 118,783,475	$ -	$ -	$ -
Subordinated liabilities	14,982,056	-	-	-	-	-	14,982,056	-
Borrowings from the ultimate holding company	121,031,194	-	-	-	17,031,194	104,000,000	-	-
Borrowings from other financial institutions	30,000,000	-	-	-	30,000,000	-	-	-
Lease liabilities	1,023,837	-	56,753	88,159	401,356	477,569	-	-
Other liabilities	1,783,629	-	335,634	427,492	856,169	164,334	-	-
Total liabilities	$ 369,130,125	$ -	$ 71,392,387	$ 11,041,585	$ 167,072,194	$ 104,641,903	$ 14,982,056	$ -
Asset-liabilities gap		$ 14,818,585	$ (70,555,992)	$ 9,776,486	$ (54,778,617)	$ 144,560,463	$ 18,344,176	

27 Financial risk management (continued)

	2018*							
	Total	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*	*Undated*
Assets								
Cash and balances with banks and other financial institutions	$ 7,173,048	$ 7,173,048	$ -	$ -	$ -	$ -	$ -	$ -
Loans and advances to customers	230,351,869	-	4,996,358	7,960,655	119,123,347	93,870,612	4,400,897	-
Loans and advances to banks and other financial institutions	30,865,107	-	-	-	4,069,175	26,795,932	-	-
Investment securities	143,684,671	-	3,999,160	-	15,455,865	104,075,247	20,154,399	-
Other assets	3,018,336	-	775,470	1,035,944	793,458	155,995	221,283	36,186
Total assets	$ 415,093,031	$ 7,173,048	$ 9,770,988	$ 8,996,599	$ 139,441,845	$ 224,897,786	$ 24,776,579	$ 36,186
Liabilities								
Deposits and balances from banks and other financial institutions	$ 177,865,823	$ -	$ 66,228,709	$ 61,637,114	$ 50,000,000	$ -	$ -	$ -
Subordinated liabilities	14,977,057	-	-	-	-	-	14,977,057	-
Borrowings from the ultimate holding company	113,210,011	-	-	-	91,000,000	22,210,011	-	-
Borrowings from other financial institutions	49,941,925	-	-	20,000,000	29,941,925	-	-	-
Other liabilities	1,761,699	-	846,424	573,881	256,560	84,834	-	-
Total liabilities	$ 357,756,515	$ -	$ 67,075,133	$ 82,210,995	$ 171,198,485	$ 22,294,845	$ 14,977,057	$ -
Asset-liabilities gap		$ 7,173,048	$ (57,304,145)	$ (73,214,396)	$ (31,756,640)	$ 202,602,941	$ 9,799,522	

*Note: The Company has initially applied HKFRS 16 using the modified retrospective approach at 1 January 2019. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

27 Financial risk management (continued)

(ii) Analysis of liabilities by remaining maturity:

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

	2019							
	Gross nominal outflow	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Indefinite
Deposits and balances from banks and other financial institutions	$ 201,762,664	$ -	$ 71,178,570	$ 10,657,025	$ 119,927,069	$ -	$ -	$ -
Borrowings from the ultimate holding company	124,626,239	-	602,129	-	18,828,717	105,195,393	-	-
Borrowings from other financial institutions	30,350,274	-	-	175,137	30,175,137	-	-	-
Subordinated liabilities	19,688,729	-	-	134,476	403,429	2,133,678	17,017,146	-
Lease liabilities	1,051,705	-	58,918	92,156	414,702	485,929	-	-
Other liabilities	1,755,760	-	333,469	423,495	842,823	155,973	-	-
	$ 379,235,371	$ -	$ 72,173,086	$ 11,482,289	$ 170,591,877	$ 107,970,973	$ 17,017,146	$ -
Unrecognised loan commitments	$ 8,750,000	$ -	$ 2,500,000	$ -	$ 1,250,000	$ 5,000,000	$ -	$ -

	2018*							
	Gross nominal outflow	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Indefinite
Deposits and balances from banks and other financial institutions	$ 179,328,096	$ -	$ 66,776,825	$ 62,144,094	$ 50,407,177	$ -	$ -	$ -
Borrowings from the ultimate holding company	114,622,685	-	4,353	693,278	91,706,337	22,218,717	-	-
Borrowings from other financial institutions	50,873,007	-	-	20,447,379	30,425,628	-	-	-
Subordinated liabilities	21,443,691	-	-	165,811	497,433	2,630,035	18,150,412	-
Other liabilities	1,761,699	-	846,424	573,881	256,560	84,834	-	-
	$ 368,029,178	$ -	$ 67,627,602	$ 84,024,443	$ 173,293,135	$ 24,933,586	$ 18,150,412	$ -
Unrecognised loan commitments	$ 9,853,000	$ -	$ 4,853,000	$ -	$ -	$ 5,000,000	$ -	$ -

*Note: The Company has initially applied HKFRS 16 using the modified retrospective approach at 1 January 2019. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

27 Financial risk management (continued)

(d) Operational risk management

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

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

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

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

(e) Capital management

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

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

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

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

27 Financial risk management (continued)

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

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

The Company has complied with all externally imposed capital requirements at each required reporting date throughout the year ended 31 December 2019 and 2018 and is well above the minimum required ratio set by the HKMA.

28 Fair values of financial instruments

(a) Estimation of fair values

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

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

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

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

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

28 Fair values of financial instruments (continued)

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

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

(b) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2019 and 31 December 2018 except as follows:

	2019		*2018*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Investment measured at amortised cost	$ 4,839,011	$ 4,837,014	$ 4,814,998	$ 4,763,550

28 Fair values of financial instruments (continued)

The table below presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classifies is determined with reference to the observability and significance of the input used in the valuation technique as stated in note 28(a).

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

	2018			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets designated at fair value through other comprehensive income - Debt securities	$136,870,052	$ 2,001,840	$ -	$138,871,892

During the year, there were transfers of financial instruments from Level 1 to Level 2 of $65,051,094. There were no transfers into or out of Level 3 (2018: $Nil) during the year.

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

Valuation techniques and inputs used in Level 2 fair value measurements

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

29 Material related party transactions

The Company entered into the following material related party transactions:

(a) *Transactions with group companies*

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

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

	Ultimate holding company		*Fellow subsidiaries*	
	2019	*2018*	*2019*	*2018*
Interest expense	$ (4,102,401)	$ (3,033,375)	-	$ -
Operating incomes	-	6,298	-	-
Operating expenses	-	-	(1,723)	(631)
For the year ended 31 December	$ (4,102,401)	$ (3,027,077)	$ (1,723)	$ (631)

	Ultimate holding company		*Fellow subsidiaries*	
	2019	*2018*	*2019*	*2018*
Acceptance of deposits				
At 1 January	$ -	$ -	$ -	$ -
Acceptance during the year	86,000,000	62,433,797	-	-
Repayment during the year	(86,000,000)	(62,433,797)	-	-
At 31 December	$ -	$ -	$ -	$ -

	Ultimate holding company	
	2019	*2018*
Borrowings		
At 1 January	$ 113,210,011	$ 98,036,456
Additional loans during the year	321,852,813	187,916,540
Repayments during the year	(314,031,630)	(172,742,985)
At 31 December	$ 121,031,194	$ 113,210,011
Subordinated liabilities		
At 1 January	$ 14,977,057	$ 15,000,000
Amortisation expense	4,999	(22,943)
At 31 December	$ 14,982,056	$ 14,977,057

29 Material related party transactions (continued)

During the year, The Export-Import Bank of Korea acted as a guarantor for loan facilities of $6,000,000 (2018: $6,000,000). The year end balance was $3,010,680 for 2019 (2018: $6,023,880), with an accrued interest of $485 (2018: $2,509).

No impairment allowance was made in respect of the above loans and placements with related parties.

(b) Remuneration for key management personnel is as follows:

	2019	*2018*
Short-term employee benefits	$ 406,344	$ 516,850

(c) Loans to directors and bodies corporate controlled by them

There were no loans to directors of the Company, including loans to bodies controlled by them, pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation.

30 Immediate parent and ultimate controlling party

At 31 December 2019 and 2018, the directors consider the immediate parent and ultimate controlling party of the Company to be The Export-Import Bank of Korea, which is incorporated in the Republic of Korea. This entity produces financial statements available for public use.

31 Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Note 28 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment losses

Impairment of financial instruments involves determining inputs into the ECL measurement model, including incorporation of forward-looking information.

(b) Critical accounting judgements in applying the Company's accounting policies

Certain critical accounting judgements in applying the Company's accounting policies are described below.

(i) Classification of financial assets

Note 1(c)(ii): Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

31 Accounting estimates and judgements (continued)

(ii) Measurement of ECL

Note 1(f): Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection of models used to measure ECL.

32 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 include the following which may be relevant to the Company.

	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 Company 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 financial statements.

Unaudited supplementary information

(Expressed in United States dollars unless otherwise indicated)

(a) Capital and capital adequacy

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

	2019	*2018*
Capital ratio:		
Common Equity Tier 1 ("CET1") Capital Ratio	16.01%	14.64%
Tier 1 Capital Ratio	16.01%	14.64%
Total Capital Ratio	20.72%	19.37%

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

	2019	*2018*
CET1 Capital:		
CET1 Capital instruments	$ 30,000,000	$ 30,000,000
Retained earnings	31,883,955	29,366,705
Disclosed reserves	597,057	(2,510,436)
CET1 Capital before deductions	$ 62,481,012	$ 56,856,269
Regulatory deductions to CET1 capital:		
Regulatory reserve for general banking risks	(1,850,585)	(1,955,052)
Net deferred tax assets	(165,260)	(135,113)
Total CET1 Capital	$ 60,465,167	$ 54,766,104
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 ("T1") Capital	$ 60,465,167	$ 54,766,104

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(a) Capital and capital adequacy (continued)

	2019	2018
Tier 2 ("T2") Capital		
Qualifying Tier 2 capital instruments plus any related share premium	$ 15,000,000	$ 15,000,000
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,779,472	2,688,599
Total T2 Capital	$ 17,779,472	$ 17,688,599
Total Capital	$ 78,244,639	$ 72,454,703

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

CET1 capital instruments represents $30,000,000 (2018: $30,000,000) issued and fully paid ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

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

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's regulatory capital disclosures will be published by using the standard disclosure templates, as specified by the HKMA under the "Regulatory Disclosure_2019" link on the home page of the Company's website at https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=362&menuid=016001005.

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(b) Countercyclical capital buffer ratio

	2019	*2018*
Countercyclical Capital Buffer Ratio	0.123%	0.029%

The relevant disclosures pursuant to section 16FG of the Banking (Disclosure) Rules for this period can be found on our website accessible through the "Regulatory Disclosure_2019" link on the home page of the Company's website at https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=362&menuid=016001005.

(c) Liquidity maintenance ratio ("LMR")

	2019	*2018*
Average LMR for the year	145.72%	147.25%

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

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

(i) Approach to liquidity risk management

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

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(d) Leverage ratio

	31 December 2019	*31 December 2018*
Leverage ratio	13.81%	12.92%

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

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's leverage position disclosures will be published by using the standard disclosure templates, as specified by the HKMA under the "Regulatory Disclosure_2019" link on the home page of the Company's website at https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=362&menuid=016001005.

(e) Segmental information by class of business

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

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

Operating income before operating expenses and impairment losses:

	2019	*2018*
Securities business	$ 1,551,874	$ 1,815,729
Commercial banking	4,270,125	3,487,844
	$ 5,821,999	$ 5,303,573

Operating assets:

	2019	*2018*
Securities business	$ 153,332,288	$ 144,457,535
Commercial banking	270,936,863	263,254,168
Unallocated	7,305,939	7,381,328
	$ 431,575,090	$ 415,093,031

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

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

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

Loans and advances to customers

(i) By industry sectors

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

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

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

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

Loans and advances to customers

	2018			
	Gross loans and advances	*% of gross loans and advances covered by collateral*	*Collectively – assessed impairment allowances*	*Individually – assessed impairment allowances*
Loans and advances for use in Hong Kong				
Industrial, commercial and financial:				
- Recreational activities	$ 5,000,000	-	$ 28,504	-
- Wholesale and retail trade	-	-	-	-
Loans and advances for use in Hong Kong	$ 5,000,000	-	$ 28,504	-
Loans and advances for use outside Hong Kong	225,951,867	-	571,494	-
Gross loans and advances to customers	$230,951,867	-	$ 599,998	-

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

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

Loans and advances to customers

(ii) By geographical areas

	2019 Gross loans and advances	*2019* Collectively - assessed impairment allowances	*2019* Individually - assessed impairment allowances
Korea	$ 202,777,806	$ (611,645)	$ -
Developing Asia and Pacific	26,463,965	(200,445)	-
Developing Latin America and Caribbean	4,206,833	(10,819)	-
Developing Africa and Middle East	2,000,000	(1,308)	-
Developing Europe	-	-	-
Offshore countries	-	-	-
	$ 235,448,604	$ (824,217)	$ -

	2018 Gross loans and advances	*2018* Collectively - assessed impairment allowances	*2018* Individually - assessed impairment allowances
Korea	$ 212,693,747	$ (556,655)	$ -
Developing Asia and Pacific	13,596,653	(30,364)	-
Developing Latin America and Caribbean	4,411,467	(10,570)	-
Developing Europe	250,000	(2,409)	-
Developing Africa and Middle East	-	-	-
Offshore countries	-	-	-
	$ 230,951,867	$ (599,998)	$ -

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

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

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

Loans and advances to banks and financial institutions

(i) By industry sectors

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

	2019			2018		
	Gross loans and advances	*% of gross loans and advances covered by collateral*	*Collectively - assessed impairment allowances*	*Gross loans and advances*	*% of gross loans and advances covered by collateral*	*Collectively - assessed impairment allowances*
Loans and advances for use outside Hong Kong	$ 35,198,503	0%	$ 33,762	$ 30,925,776	0%	$ 60,669

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

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

Loans and advances to banks and financial institutions

(ii) By geographical areas

	2019 Gross loans and advances	2019 Collectively - assessed impairment allowances
- Korea	$ 5,000,000	$ (3,251)
- Developing Asia and Pacific	4,993,494	(6,520)
- Developing countries	-	-
- Offshore countries	4,996,879	(6,506)
- Developing Europe	-	-
- Developing Africa and Middle East	16,714,948	(15,201)
- Developing Latia America and Caribbean	3,493,182	(2,284)
	$ 35,198,503	$ (33,762)

	2018 Gross loans and advances	2018 Collectively - assessed impairment allowances
- Korea	$ 5,000,000	$ (6,552)
- Developing Asia and Pacific	5,661,285	(3,196)
- Developing countries	-	-
- Offshore countries	4,994,381	(6,388)
- Developing Europe	3,431,912	(32,634)
- Developing Africa and Middle East	11,838,198	(11,899)
	$ 30,925,776	$ (60,669)

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

(f) Overdue and rescheduled advances to customers

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

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(g) International claims

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

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

	2018					
	Banks	*Official sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Others*	*Total*
Developed countries	$ 26,044,831	$ -	$ -	$ 23,211,238	$ -	$ 49,256,069
Offshore centres	5,551,507	-	-	4,801,214	-	10,352,721
Developing Europe	3,440,539	-	-	250,444	-	3,690,983
Developing Latin America and Caribbean	-	-	-	4,468,434	-	4,468,434
Developing Africa and Middle East	14,896,978	-	-	2,903,665	-	17,800,643
Developing Asia-Pacific	65,051,178	-	-	266,265,741	-	331,316,919
Of which:						
- China	28,079,157	-	-	24,051,150	-	52,130,307
- South Korea	26,978,991	-	-	233,579,782	-	260,558,773
Total	$114,985,033	$ -	$ -	$301,900,736	$ -	$416,885,769

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(h) Currency risk

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

(Expressed in millions of Hong Kong dollars)	*2019* United States Dollars	Euro	Renminbi	Total
Spot assets	$ 3,231	$ 139	$ -	$ 3,370
Spot liabilities	(3,240)	(132)	-	(3,372)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net short position	$ (9)	$ 7	$ -	$ (2)
Net structural position	-	-	-	-

(Expressed in millions of Hong Kong dollars)	*2018* United States Dollars	Euro	Renminbi	Total
Spot assets	$ 3,086	$ 172	$ -	$ 3,258
Spot liabilities	(3,091)	(171)	-	(3,262)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net short position	$ (5)	$ 1	$ -	$ (4)
Net structural position	-	-	-	-

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(i) Non-bank Mainland China exposure

(Expressed in thousands of United States dollars)

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

	2019		
Types of Counterparties	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
1 Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2 Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	51,607	-	51,607
4 Other entities of central government not reported in item 1 above	-	-	-
5 Other entities of local governments not reported in item 2 above	-	-	-

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(i) Non-bank Mainland China exposure (continued)

	2019		
Types of Counterparties (continued)	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,050	5,000	10,050
Total	56,657	5,000	61,657
Total assets after provision	432,259		
On-balance sheet exposures as percentage of total assets	13.11%		

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(i) Non-bank Mainland China exposure (continued)

	2018		
Types of Counterparties	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
1 Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2 Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	50,760	4,853	55,613
4 Other entities of central government not reported in item 1 above	-	-	-
5 Other entities of local governments not reported in item 2 above	-	-	-

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(i) Non-bank Mainland China exposure (continued)

	2018		
Types of Counterparties (continued)	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total	50,760	4,853	55,613
Total assets after provision	415,793		
On-balance sheet exposures as percentage of total assets	12.21%		

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(j) Additional disclosures on credit risk management

(i) Capital requirement

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

	2019	*2018*
Sovereign	$ 160,359	$ 335,582
Bank	3,370,332	3,171,907
Corporate	25,019,068	23,788,933
Other exposure which are not past due	155,044	65,926
Past due	-	-
Total capital requirements for on-balance sheet exposures	$ 28,704,803	$ 27,362,348
Other commitments	$ 700,000	$ 277,648
Interest rate contracts	-	-
Exchange rate contracts	-	-
Default risk exposures	447,365	1,559,773
CVA under standardized method	-	-
Total capital requirements for off-balance sheet exposures	$ 1,147,365	$ 1,837,421
	$ 29,852,168	$ 29,199,769

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

(ii) Capital charge

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

	2019	*2018*
Capital charge for operational risk	$ 801,687	$ 725,233

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

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

(iii) Credit risk mitigation

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

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

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

(iv) Market risk

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

(k) Corporate governance

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

Board committees

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

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(k) Corporate governance (continued)

Credit Committee

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

Risk Management Committee

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

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

- Understand fully the nature of risks considered significant to the Company and to ensure that the necessary steps are taken to identify, measure and control these risks;

- Ensure that appropriate policies and procedures, controls, and risk monitoring systems are in place and that accountability and lines of authority are set out clearly and well communicated;

- Establish and communicate guidelines and standards for managing the Company's risks;

- Implement strategies in a manner that limits risks associated with the Company's business and ensures compliance with laws and regulations;

- Oversee the asset and liability structure of the Company and ensure that the Company has sufficient liquidity to meet its short-term funding needs; and

- Construct, implement, and oversee strategies to ensure they are consistent with the Asset/Liability Management objectives. The strategies should take into consideration the economic, competitive and regulatory conditions.

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(l) Senior management compensation and benefits

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

(1) Design and implementation of the remuneration system

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

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

Senior management is defined as those persons who are responsible for oversight of the Company's strategy or activities and/or those of the Company's material business lines. Key Personnel are defined as individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Company. For the year 2019, the Company does not have any staff considered as Key Personnel.

Unaudited supplementary information (continued)

(Expressed in United States dollars unless otherwise indicated)

(l) Senior management compensation and benefits (continued)

(2) Aggregate quantitative information on remuneration for senior management and Key Personnel for the year ended 31 December 2019 are as follows:

(i) Amount of remuneration for the financial years 2019 and 2018 are all fixed remuneration:

		2019			*2018*	
		Non-deferred	*Number of beneficiaries*		*Non-deferred*	*Number of beneficiaries*
The value of remuneration awards for the financial year ended						
Senior management						
Fixed Remuneration (USD):						
Cash-based	$	406,344	5	$	516,850	6

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

(ii) There was no deferred remuneration during the financial year 2019 (2018: $Nil);

(iii) There was no deferred remuneration awarded during 2019 being paid out and reduced through performance adjustment (2018: $Nil);

(iv) There was no guaranteed bonuses awarded during the financial year 2019 (2018: $Nil); and

(v) No senior management or key personnel has been awarded with new sign-on or severance payment during the financial year 2019 (2018: $Nil).

(m) Pillar 3 Regulatory Disclosures

The Pillar 3 regulatory disclosures for this year which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the HKMA can be found on the Company's website accessible through the "Regulatory Disclosure_2019" link on the home page of the Company's website at https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=362&menuid=016001005.