KPMG

BPI International Finance Limited

Audited Report and Financial Statement
For the year ended 31 December 2018

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Directors' Report

The directors submit herewith their annual report together with the audited financial statements of BPI International Finance Limited (the "Company") for the year ended 31 December 2018.

Principal activities

The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance. The Company is licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities. Its principal activities are the provision of financial services and dealing in securities on behalf of customers.

Results and appropriations

The results of the Company for the year ended 31 December 2018 are set out in the statement of profit and loss and other comprehensive income on page 6.

The directors recommended the transfer of BPI Remittance Centre (HK) Limited to its ultimate holding company, Bank of Philippines Islands in specie distribution of dividend with consideration of HKD19.6 million. The dividend was paid on 24 October 2018 (2017: Nil).

Share capital

Details of the movements in share capital of the Company are set out in note 20 to the financial statements.

Directors of the Company

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

Archie Lin	
Ma. Carmencita S. Bustamante	
Tomas S. Chuidian	
Jonathan Paul Back	(appointed on 24 April 2018)
Ki Myung Hong	(appointed on 26 March 2018)
Edgardo O. Madrilejo	(resigned on 26 March 2018)
Mario Antonio V. Paner	(resigned on 28 June 2018)
Natividad N. Alejo	(resigned on 28 June 2018)
Joseph Albert L. Gotuaco	(resigned on 31 October 2018)

In accordance with Article 85 of the Company's Articles of Association, all directors retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business

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

At no time during the year was the Company, its fellow subsidiaries, its parent company or its other associated corporations a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associated corporations.

Management contracts

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

Compliance with the Banking (Disclosure) Rules

The Company is required to comply with the Banking (Disclosure) Rules. The Banking (Disclosure) Rules set out the minimum standards for public disclosure which authorized institutions must make in respect of the statement of profit and loss and other comprehensive, its state of affairs and capital adequacy. The financial statements for the financial year ended 31 December 2018 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Permitted indemnity provisions

At no time during the financial year and up to the date of this Directors' report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Tomas S. Chuidian , Chairman

Hong Kong,

2 6 APR 2019

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Independent auditor's report to the members of BPI International Finance Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of BPI International Finance Limited ("the Company") set out on pages 6 to 55, which comprise the statement of financial position as at 31 December 2018, 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 2018 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

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

The directors are responsible for the other information. The other information comprises 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 BPI International Finance Limited

(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 scepticism throughout the audit. We also:

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

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

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

Independent auditor's report to the members of BPI International Finance Limited

(Incorporated in Hong Kong with limited liability)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

KPMG

Certified Public Accountants

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

26 APR 2019

Statement of profit and loss and other comprehensive income for the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Interest income	5	8,517	5,850
Interest expense		(2,699)	(1,856)
Net interest income		5,818	3,994
Other operating income	6	35,730	20,578
Total operating income		41,548	24,572
Gain from disposal of subsidiary	7	19,100	-
Credit impairment		(632)	-
Operating expenses	8	(33,032)	(24,581)
Profit/(loss) before taxation		26,984	(9)
Income tax expense	10(a)	-	(223)
Profit/(loss) for the year		26,984	(232)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of Financial assets designated at fair value through other comprehensive income, net of tax	10(c)	(290)	-
Change in fair value of Available-for-sale securities, net of tax	10(c)	-	(260)
Total comprehensive income/(loss) for the year		26,694	(492)

The notes on pages 12 to 55 are an integral part of these financial statements.

Statement of financial position as at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Assets			
Cash and short-term funds	11	142,594	90,354
Placements with banks and other financial institutions maturing between one and twelve months	12	173,163	188,005
Financial assets designated at amortised cost	13	19,285	-
Held-to-maturity securities	14	-	19,491
Advances and other accounts	15	51,274	23,582
Financial assets designated at fair value through other comprehensive income	16	69,911	-
Available-for-sale securities	17	-	104,230
Investment in subsidiary	18	-	500
Fixed assets	19	224	170
Total assets		456,451	426,332
Liabilities			
Time deposits from customers		288,016	259,693
Other payables		3,694	8,992
Total liabilities		291,710	268,685

Statement of financial position as at 31 December 2018 (continued)

	Note	2018 HK$'000	2017 HK$'000
Equity			
Share capital	20	75,000	75,000
Retained earnings	21	90,180	82,796
Investment revaluation reserve	21	(439)	(149)
		164,741	157,647
Total equity and liabilities		456,451	426,332

The financial statements on pages 6 to 55 were approved by the Board of Directors on and were signed on its behalf.

Tomas S. Chuidian

Director

2 6 APR 2019

Archie Lin

Director

2 6 APR 2019

The notes on pages 12 to 55 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2018

	Share capital HK$'000	Investment revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2017	75,000	111	83,028	158,139
Comprehensive income				
Loss for the year	-	-	(232)	(232)
Other comprehensive loss				
Change in fair value of Available-for-sale securities, net of tax.	-	(260)	-	(260)
Total comprehensive loss for the year	-	(260)	(232)	(492)
At 31 December 2017 and 1 January 2018	75,000	(149)	82,796	157,647
Comprehensive income				
Profit for the year	-	-	26,984	26,984
Dividend distribution	-	-	(19,600)	(19,600)
Other comprehensive income				
Change in fair value of Financial assets designated at fair value through other comprehensive income, net of tax	-	(290)	-	(290)
Total comprehensive income for the year	-	(290)	7,384	7,094
At 31 December 2018	75,000	(439)	90,180	164,741

The notes on pages 12 to 55 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Net cash (outflow)/inflow from operating activities before taxation	26	(44,643)	50,957
Net Hong Kong profits tax recovered		-	828
Net cash (outflow)/inflow from operating activities after taxation		(44,643)	51,785
Investing activities			
Purchase of Fixed Assets		(333)	(339)
Purchase of Financial assets designated at amortised cost		(15,264)	-
Purchase of Held-to-maturity securities		-	(15,450)
Purchase of Available-for-sale securities		-	(66,959)
Proceeds from redemption of Financial assets designated at fair value through other comprehensive income		32,138	-
Proceeds from redemption/disposal of Available-for-sale securities		-	56,240
Proceeds from redemption of Financial assets designated at amortised cost		15,661	-
Proceeds from redemption of Held-to-maturity securities		-	25,378
Interest received from Financial assets designated at amortised cost		127	-
Interest received from Held-to-maturity securities		-	527
Interest received from Financial assets designated at fair value through other comprehensive income		3,742	-
Interest received from Available-for-sale securities		-	2,181
Dividend received		15,000	1
Net cash inflow from investing activities		51,071	1,579
Increase in cash and cash equivalents		6,428	53,364
Cash and cash equivalents at 1 January		251,608	198,244
Cash and cash equivalents at 31 December		258,036	251,608

Statement of cash flows
for the year ended 31 December 2018 (continued)

	Note	2018 $'000	2017 $'000
Analysis of cash and cash equivalents			
Balances with banks and other financial institutions	11	56,904	38,121
Placement with banks and other financial institutions with original maturity within three months		201,132	213,487
		258,036	251,608

The notes on pages 12 to 55 are an integral part of these financial statements.

Notes to the financial statements

1 General information

The principal activities of BPI International Finance Limited (the "Company") are the provision of financial services and dealing in securities on behalf of customers. The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance and licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities.

The Company is incorporated in Hong Kong and its registered office is 23/F., Entertainment Building, 30 Queen's Road Central, Hong Kong.

2 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(c) provides information on any 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 the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the investments in debt and equity securities are stated at their fair value as explained in the accounting policies set out in note 2(g).

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.

2 Significant accounting policies (continued)

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

(c) Changes in accounting policies

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

- HKFRS 9, *Financial instruments*

- HKFRS 15, *Revenue from contracts with customers*

- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement.* It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Company has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Company has assessed that the impact of transition of HKFRS 9 did not have a material impact on retained earnings and the related tax impact at 1 January 2018 and the Company did not recognise the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

A. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

2 Significant accounting policies (continued)

The following table shows the original measurement categories for each class of the Company's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

	HKAS 39 carrying amount as at 31 December 2017	*Reclassification*	*HKFRS 9 carrying amount as at 1 January 2018*
	HK$'000	HK$'000	HK$'000
Financial assets carried at amortised cost			
Cash and short-term funds	90,354	-	90,354
Placements with banks and other financial institutions maturing between one and twelve months	188,005	-	188,005
Financial assets designated at amortised cost (note (i))	-	19,491	19,491
	278,359	19,491	297,850
Financial assets carried at FVOCI			
Financial assets designated at fair value through other comprehensive income (note (ii))	-	104,230	104,230
	-	104,230	104,230
Financial assets classified as held-to-maturity securities under HKAS 39 (note (i))	19,491	(19,491)	-
Financial assets classified as available-for-sale under HKAS 39 (note (ii))	104,230	(104,230)	-

2 Significant accounting policies (continued)

Notes:

(i) Investments in debt securities with positive intention and ability to hold to maturity are classified as financial assets carried at amortised cost under HKAS 39.

(ii) Investments in debt securities with intention to be held for an indefinite period of time, which may be sole in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale financial assets. These assets are classified as financial assets carried at FVOCI under HKFRS 9.

B. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Company applies the new ECL model to the following items:

(i) Financial assets designated at amortised cost (including Cash and short-term funds and Placements with banks and other financial institutions maturing between one and twelve months) and

(ii) Financial assets designated at fair value through other comprehensive income.

The adoption of HKFRS 9 did not have a significant impact on ECL on the carrying amounts of financial assets as at 1 January 2018. For further details on the Company's accounting policy for accounting for credit losses, see respective accounting policy notes 2(i).

C. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Company).

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2 Significant accounting policies (continued)

(ii) HKFRS 15, "Revenue from contracts with customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company initially applied HKFRS 15 on 1 January 2018 retrospectively in accordance with HKAS 8 without any practical expedients. The timing or amount of the Company's revenue and other income from contracts with customers was not impacted by the adoption of HKFRS 15.

Details of the nature and effect of the changes on previous accounting policies are set out below:

(A) Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Company recognises revenue.

2 Significant accounting policies (continued)

(B) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018.

The Company has assessed that the impact of transition of HKFRS 15 did not have a material impact on retained earnings and the related tax impact at 1 January 2018.

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Company.

(d) Interest income and expense

A. Policy applicable from 1 January 2018

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

2 Significant accounting policies (continued)

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

(i) interest on financial assets and financial liabilities measured at amortised cost; and

(ii) interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss arises from financial liabilities measured at amortised cost.

B. Policy applicable prior to 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

(i) interest on financial assets and financial liabilities measured at amortised cost; and

(ii) interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss arises from financial liabilities measured at amortised cost.

2 Significant accounting policies (continued)

(e) Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see note 2(d)).

Other fee and commission income – including investment management fees and sales commission – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of HKFRS 9 and partially in the scope of HKFRS 15. If this is the case, then the Company first applies HKFRS 9 to separate and measure the part of the contract that is in the scope of HKFRS 9 and then applies HKFRS 15 to the residual.

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

(f) Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

From 1 January 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

(g) Investment in debt and equity securities

Investments are recognised / derecognised on the date the Company commits to purchase/sell the investments or they expire. Investment in debt securities is initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification:

A. Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Company are classified as fair value through profit or loss (FVPL) when the contractual cash flows of the investment do not represent solely payments of principal and interest. Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 Significant accounting policies (continued)

If the contractual cash flows of the non-equity investments held by the Company represent solely payments of principal and interest, the investment would be classified as amortised cost, as the Company does not invest in such instruments other than principally to collect those contractual cash flows. Interest income from investments carried at amortised cost is calculated using the effective interest method (see note 2(d)). A loss allowance on investments carried at amortised cost would be recognised with reference to credit losses expected to arise on the instrument, discounted where the effect would be material, and taking into account whether the credit risk of the instrument had increased significantly since initial recognition.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Company makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

B. Policy applicable prior to 1 January 2018

Available-for-sale securities

Other investments in securities, being those held for non-trading purposes, were classified as available-for-sale securities. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling).

Dividend income from equity securities and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2(f) and 2(g) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities were also recognised in profit or loss.

When there was objective evidence that available-for-sale securities were impaired, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss. Objective evidence of impairment included observable data that came to the attention of the Company concerning the underlying financial stability of the investee as well as a significant or prolonged decline in the fair value of an investment below its cost.

2 Significant accounting policies (continued)

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised directly in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

When the investments were derecognised, the cumulative gain or loss recognised in equity is reclassified to profit or loss.

(h) Loans and receivables

A. Policy applicable from 1 January 2018

'Loans and receivables' caption in the statement of financial position include:

(i) loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method less allowance for credit losses; and

(ii) other accounts measured at amortised cost.

B. Policy applicable prior to 1 January 2018

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Company did not intend to sell immediately or in the near term.

Loans and advances to customers were classified as loans and receivables. Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(i) Credit impairment

A. Policy applicable from 1 January 2018

The Company recognises loss allowances for ECL on cash and short-term funds, placements with banks and other financial institutions maturing between one and twelve months, financial assets designated at fair value through other comprehensive income, and financial assets designated at amortised cost. The Company measures loss allowances as 12-month ECL.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

2 Significant accounting policies (continued)

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

(i) financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls; and

(i) financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

(i) financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and

(ii) debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

B. Policy applicable prior to 1 January 2018

Objective evidence of impairment

At each reporting date, the Company assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

2 Significant accounting policies (continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The collective allowance for groups of homogeneous loans was established based on historical loss rate experience. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

2 Significant accounting policies (continued)

Reversal of impairment

(i) for assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

(ii) for available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

The Company wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Company determined that there was no realistic prospect of recovery.

(j) Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred, and subsequently, carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit and loss and other comprehensive income over the period of the financial liabilities using the effective interest method.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2 Significant accounting policies (continued)

(l) Impairment of investment in subsidiaries and non-financial assets

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

(m) Gain from disposal of subsidiaries

With use of merger accounting, disposal of subsidiaries which are ultimately controlled by the same party accounts for a common control combination is that no acquisition has occurred and there has been a continuation of the risks and benefits to the controlling party (or parties) that existed prior to the combination. Use of merger accounting recognises this by accounting for the combining entities or businesses as though the separate entities or businesses were continuing as before.

This is on the basis that the parties are separate entities in their own right and that the accounting for the transaction should be as if it had been carried out in an orderly manner between market participants. Under this method, the book value of investment in subsidiary is revalued to its fair value. Still, the difference between consideration transferred and the book value of investment in subsidiary will be recorded in equity as distribution/contribution from shareholder, while the difference between book value and fair value of subsidiary will be recorded as profit or loss.

(n) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the statement of profit and loss and other comprehensive income during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	over the remaining period of lease
Furniture, fixtures and equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2 Significant accounting policies (continued)

(o) Current and deferred income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investment in subsidiary to the extent that, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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 profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 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.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are recognised when the absences occur.

(ii) Pension obligations

The Company contributes to defined contribution retirement schemes under Mandatory Provident Fund ("MPF") schemes that are available to the Company's employees. Contributions to the schemes by the Company and employees are calculated in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the statement of profit and loss and other comprehensive income as incurred and represent contributions payable by the Company to the schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Company.

(q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2 Significant accounting policies (continued)

(r) Translation of foreign currencies

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognised directly in the statement of profit and loss and other comprehensive income. Assets and liabilities denominated in foreign currencies are translated at the closing rate at the balance sheet date. The differences arising from translation are recognised in the statement of profit and loss and other comprehensive income except for translation differences on non-monetary items such as debit securities classified as available for-sale securities are included in the other comprehensive income, and accumulated in investment revaluation reserve in equity.

(s) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of profit and loss and other comprehensive income on a straight-line basis over the period of the lease.

(t) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2 Significant accounting policies (continued)

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks 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.

In the statement of cash flows, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash and balances with banks and other financial institutions.

(v) 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 Significant accounting policies (continued)

(w) Fiduciary activities

The Company commonly acts in a fiduciary capacity that results in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising thereon are excluded from the financial statements, as they are not assets of the Company.

3 Financial and operational risk management

The Company's activities are principally related to the use of financial instruments. It accepts deposits from customers, seeks to earn interest margins by investing these funds in high-quality assets and obtaining above-average margins through lending to commercial borrowers.

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. Information related to the risk the Company is exposed to and its management and control of the primary risk associated with the use of financial instruments are set out below:

3.1 Credit risk

The Company takes on exposure to credit risk, which is the risk arising from the possibility that borrowing customers on counterparties in a transaction may default on their payment obligations. It arises from the lending, other activities undertaken by the Company.

The Company has no significant concentrations of credit risk on individual customer. Due to nature of the business of the Company, the Company has geographical concentration of advances to customers (Note 3.1 (b)(ii)). Policies and procedures for credit evaluation, approval, documentation, implementation, safekeeping, servicing, administration, collection, and impairment allowances are formalised and approved by the Board of Directors of the Company. Compliance with these policies/procedures is independently reviewed by the Company's internal auditors with formal reporting on the results of examinations of Board of Directors of the Company. Risk Management Committee ("RMC") is responsible for the monitoring of the Company's credit risk.

3 Financial and operational risk management (continued)

(a) Maximum exposures to credit risk before collateral held or other enhancements are summarised as follows:

	2018 HK$'000	*2017* HK$'000
On-balance sheet assets		
Short-term funds	142,594	90,354
Placements with banks and other financial institutions maturing between one and twelve months	173,163	188,005
Financial assets designated at amortised cost	19,285	-
Held-to-maturity securities	-	19,491
Advances and other accounts	51,274	23,582
Financial assets designated at fair value through other comprehensive income	69,911	-
Available-for-sale securities	-	104,230
Off-balance sheet items		
Loan commitment and contingent liabilities	8,847	31,453
	465,074	457,115

The maximum exposure is a worst case scenario of credit risk exposure to the Company without taking account of any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Company's financial assets are as follows:

(i) Short-term funds and placements with banks and other financial institutions maturing between one and twelve months

These exposures are generally considered to be low risk due to the nature of the counterparties and take into account of credit quality. Collateral is generally not sought on these assets.

(ii) Financial assets designated at amortised cost and Financial assets designated at fair value through other comprehensive income

Collateral is generally not sought on debt securities.

3 Financial and operational risk management (continued)

(iii) Advances and other accounts, loan commitments and contingent liabilities

The general types of collateral are investment securities and cash deposits. Advances and other accounts, loan commitments are collateralised to the extent considered appropriate by the Company taking account of the risk assessment of individual exposures. The advances to customers are fully collateralised at all time. The Company monitors the market value of the investment securities and ensure that the loan to value ratio is within pre-set limits. The components and nature of contingent liabilities and commitments are disclosed in Note 23. Regarding the commitments that are unconditionally cancellable without prior notice, the Company would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. Accordingly, these commitments do not expose the Company to significant credit risk.

(b) Gross advances to customers

(i) Gross advances by customer type

	2018 HK$'000	*2017* HK$'000
Personal loans	43,407	17,754

As at balance sheet date, there are no loans and advances to customers which are past due or impaired. There are no rescheduled advances as at 31 December 2018 and 2017.

(ii) Geographical concentration of gross advances to customers

The following geographical analysis of gross advances to customers is based on the country of residence of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

	2018 HK$'000	*2017* HK$'000
The Philippines	43,407	17,754

3 Financial and operational risk management (continued)

(c) Debt securities that are neither past due nor impaired

The table below presents an analysis of debt securities by rating agency designation at 31 December, based on the Moody's ratings or their equivalent that the Company has used in relation to credit risk exposures. Refer to Notes 13-14 and 16-17 for the analysis on the debt securities by type of issuers.

2018	*Financial assets designated at fair value through other comprehensive income* HK$'000	*Financial assets designated at amortised cost securities* HK$'000	*Total* HK$'000
Aaa	-	15,285	15,285
Aa1 to Aa3	10,110	-	10,110
A1 to A3	34,712	-	34,712
Below A3 and above C	25,089	4,000	29,089
	69,911	19,285	89,196

2017	*Available-for-sale securities* HK$'000	*Held-to-maturity securities* HK$'000	*Total* HK$'000
Aaa	7,789	15,458	23,247
Aa1 to Aa3	14,218	-	14,218
A1 to A3	41,187	-	41,187
Below A3 and above C	41,036	4,033	45,069
	104,230	19,491	123,721

There are no overdue debt securities as at 31 December 2018 (2017: nil).

3 Financial and operational risk management (continued)

3.2 Market risk

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

The Company's exposures to market risk for the non-trading portfolios primarily arise from the interest rate management of the Company's assets and liabilities. Non-trading portfolios also consist of foreign exchange and credit risks arising from the Company's Financial assets designated at amortised cost and available-for-sale investments. Analysis of the Company's currency risk and interest rate risk are stated in Note 3.2(a) and 3.2(b) below, respectively.

(a) Currency risk

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Except to cover transactional requirements, the Company does not hold positions for trading purposes.

The tables below summarise the Company's exposure to foreign currency exchange rate risk as at 31 December. Included in the tables are the Company's assets and liabilities at carrying amounts in Hong Kong dollar equivalent, categorised by the original currency.

	2018			
	HKD HK$'000	*USD* HK$'000	*Other* HK$'000	*Total* HK$'000
Assets				
Cash and short-term funds	8,372	131,953	2,269	142,594
Placements with banks and other financial institutions maturing between one and twelve months	21,397	127,852	23,914	173,163
Financial assets designated at amortised cost	-	19,285	-	19,285
Advances and other accounts	4,245	46,962	67	51,274
Financial assets designated at fair value through other comprehensive income	-	68,791	1,120	69,911
Fixed assets	224	-	-	224
Total assets	34,238	394,843	27,370	456,451
Liabilities				
Deposits from customers	257	261,006	26,753	288,016
Other payables	3,638	54	2	3,694
Total liabilities	3,895	261,060	26,755	291,710
Net on-balance sheet position	30,343	133,783	615	164,741
Credit commitments	-	8,847	-	8,847

3 Financial and operational risk management (continued)

	2017			
	HKD HK$'000	*USD* HK$'000	*Other* HK$'000	*Total* HK$'000
Assets				
Cash and short-term funds	25,952	62,982	1,420	90,354
Placements with banks and other financial institutions maturing between one and twelve months	17,407	144,039	26,559	188,005
Held-to-maturity securities	-	19,491	-	19,491
Advances and other accounts	3,098	20,384	100	23,582
Available-for-sale securities	-	102,974	1,256	104,230
Investment in subsidiary	500	-	-	500
Fixed assets	170	-	-	170
Total assets	47,127	349,870	29,335	426,332
Liabilities				
Deposits from customers	257	230,263	29,173	259,693
Other payables	1,544	7,445	3	8,992
Total liabilities	1,801	237,708	29,176	268,685
Net on-balance sheet position	45,326	112,162	159	157,647
Credit commitments	-	31,453	-	31,453

(b) *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates.

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movement arise. The Assets and Liabilities Committee ("ALCO") regularly meets to review historical information and make forecasts. Once a month, a formal report of average rates of interest income and expenses are presented to the senior management of the Company.

3 Financial and operational risk management (continued)

The tables below summarise the Company's exposure to interest rate risk as at 31 December. Included in the tables are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates (other than non-interest bearing balances).

2018

	Up to 1 month HK$'000	1-3 months HK$'000	3 - 12 months HK$'000	1- 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Assets							
Cash and short-term funds	142,594	-	-	-	-	-	142,594
Placements with banks and other financial institutions maturing between one and twelve months	-	173,163	-	-	-	-	173,163
Financial assets designated at amortised cost	-	-	15,285	4,000	-	-	19,285
Advances and other accounts	2,750	3,926	36,731	-	-	7,867	51,274
Financial assets designated at fair value through other comprehensive income	4,381	6,597	28,067	28,031	2,835	-	69,911
Fixed assets	-	-	-	-	-	224	224
Total assets	149,725	183,686	80,083	32,031	2,835	8,091	456,451
Liabilities							
Deposits from customers	74,846	195,576	17,594	-	-	-	288,016
Other payables	-	-	-	-	-	3,694	3,694
Total liabilities	74,846	195,576	17,594	-	-	3,694	291,710
Interest sensitivity gap	74,879	(11,890)	62,489	32,031	2,835		

2017

	Up to 1 month HK$'000	1-3 months HK$'000	3 - 12 months HK$'000	1- 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Assets							
Cash and short-term funds	90,354	-	-	-	-	-	90,354
Placements with banks and other financial institutions maturing between one and twelve months	-	169,091	18,914	-	-	-	188,005
Held-to-maturity securities	-	-	15,458	4,033	-	-	19,491
Advances and other accounts	2,744	3,945	11,065	-	-	5,828	23,582
Available-for-sale securities	8,039	10,191	14,150	68,004	3,846	-	104,230
Investment in subsidiary	-	-	-	-	-	500	500
Fixed assets	-	-	-	-	-	170	170
Total assets	101,137	183,227	59,587	72,037	3,846	6,498	426,332
Liabilities							
Deposits from customers	75,940	174,631	9,122	-	-	-	259,693
Other payables	-	-	-	-	-	8,992	8,992
Total liabilities	75,940	174,631	9,122	-	-	8,992	268,685
Interest sensitivity gap	25,197	8,596	50,465	72,037	3,846		

3 Financial and operational risk management (continued)

(c) Market risk sensitivity analysis

(i) Currency risk

As at 31 December 2018 and 2017, the Company's foreign currency exposure is mainly to US dollar. As HK dollar and USD dollar are pegged, it is expected that any movements in the exchange rate will have minimal impact to the earnings of the Company.

(ii) Interest rate risk

The Company's interest rate risk mainly arises from the timing differences in the repricing of interest bearing assets, liabilities and off-balance sheet positions.

The Company is principally exposed to HK dollar, US dollar, and Australian dollar in terms of interest rate risk. At 31 December 2018, if HK dollar, US dollar, and Australia dollar market interest rates had been 50 basis point lower/higher with other variables held constant, earnings of the Company over the next 12 months would be reduced/increased by HK$229,349 (2017: HK$56,394).

3.3 Liquidity risk

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

(a) Liquidity risk management process

The liquidity condition of the Company is monitored on a daily basis by the Company's chief executive. The balance between liquidity and profitability is carefully considered but the former is given higher priority in case of conflicts in meeting targets or regulatory requirements. The liquidity management processes are as below:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met.
- Performing periodic liquidity stress testing on Company's liquidity position by assuming a faster rate of withdrawals in its deposit base.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows.
- Monitoring liquidity gaps against internal and regulatory requirements.

3 Financial and operational risk management (continued)

(b) *Maturity analysis*

The tables below analyse assets and liabilities of the Company as at 31 December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the tables below are the approximation of the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash flows.

	2018							
	Repayable on demand HK$'000	*Up to 1month* HK$'000	*1 - 3 months* HK$'000	*3-12 months* HK$'000	*1-5 years* HK$'000	*Over 5 years* HK$'000	*Undated* HK$'000	*Total* HK$'000
Assets								
Cash and short-term funds	56,783	85,899	-	-	-	-	-	142,682
Placements with banks and other financial institutions maturing between one and twelve months	-	-	173,831	-	-	-	-	173,831
Financial assets designated at amortised cost	-	-	-	15,664	4,024	-	-	19,688
Advances and other accounts	3,103	2,802	4,270	42,109	2	-	47	52,333
Financial assets designated at fair value through other comprehensive income	-	4,383	6,613	28,136	28,231	3,008	-	70,371
Fixed assets	-	-	-	-	-	-	224	224
Total assets	59,886	93,084	184,714	85,909	32,257	3,008	271	459,129
Liabilities								
Deposits from customers	-	74,882	195,966	17,733	-	-	-	288,581
Other payables	-	170	2,338	1,058	-	-	128	3,694
Total liabilities	-	75,052	198,304	18,791	-	-	128	292,275
Net liquidity gap	59,886	18,032	(13,590)	67,118	32,257	3,008	143	166,854

	2017							
	Repayable on demand HK$'000	*Up to 1month* HK$'000	*1 - 3 months* HK$'000	*3-12 months* HK$'000	*1-5 years* HK$'000	*Over 5 years* HK$'000	*Undated* HK$'000	*Total* HK$'000
Assets								
Cash and short-term funds	38,121	52,631	-	-	-	-	-	90,752
Placements with banks and other financial institutions maturing between one and twelve months	-	33	169,455	19,220	-	-	-	188,708
Held-to-maturity securities	-	-	-	15,630	4,323	-	-	19,953
Advances and other accounts	2,774	2,994	4,103	13,889	-	-	35	23,795
Available-for-sale securities	-	7,833	10,175	14,369	71,276	4,795	-	108,448
Investment in subsidiary	-	-	-	-	-	-	500	500
Fixed assets	-	-	-	-	-	-	170	170
Total assets	40,895	63,491	183,733	63,108	75,599	4,795	705	432,326
Liabilities								
Deposits from customers	-	75,965	174,837	9,155	-	-	-	259,957
Other payables	-	7,443	939	143	467	-	-	8,992
Total liabilities	-	83,408	175,776	9,298	467	-	-	268,949
Net liquidity gap	40,895	(19,917)	7,957	53,810	75,132	4,795	705	163,377

3 Financial and operational risk management (continued)

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Company's off-balance sheet financial instruments as at 31 December 2018 that commit it to extend credit to customers and other facilities amounted to HK$8,846,951(2017: HK$31,453,240) and mature within 1 year.

3.4 Fair value of financial assets and liabilities

(a) Financial Instrument carried at other than fair value

The financial assets and liabilities not presented at fair value in the Company's statement of financial position are estimated as follows:

(i) Balances and placements with banks

The maturities of these financial assets are within one year and the carrying value approximates fair value.

(ii) Advances and other accounts

The maturities of most of the advances and other accounts are within one year and their carrying value approximates fair value.

(iii) Deposits from customers

All the deposits from customers mature within one year from balance sheet date and their carrying value approximates fair value.

3 Financial and operational risk management (continued)

(iv) Other payables

The carrying amount of other payables, which are normally repayable within one year, approximate to their fair value.

The following table summarises the carrying amounts and fair values of the financial assets and liabilities, apart from those disclosed above, not presented on the Company's statement of financial position at their fair value.

The Company

	Carrying value		*Fair value*	
	2018	*2017*	*2018*	*2017*
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets designated at amortised cost	19,285	-	19,223	-

	Carrying value		*Fair value*	
	2018	*2017*	*2018*	*2017*
	HK$'000	HK$'000	HK$'000	HK$'000
Held-to-maturity securities	-	19,491	-	19,474

Fair value for financial assets designated at amortised cost is based on quoted market prices or broker/ dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(b) Financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter market) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3 Financial and operational risk management (continued)

The following table 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 classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2018.

	2018			
	Level 1	*Level 2*	*Level 3*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Financial assets designated at fair value through other comprehensive income				
- Debt securities	39,016	30,895	-	69,911
Total	39,016	30,895	-	69,911

	2017			
	Level 1	*Level 2*	*Level 3*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Available-for-sale securities				
- Debt securities	65,196	39,034	-	104,230
Total	65,196	39,034	-	104,230

Level 1 fair value of debt securities have been determined based on regular trading activity on exchange and active over the counter broker market. Level 2 fair values of debt securities have been determined based on quotes from brokers supported by observable inputs.

3 Financial and operational risk management (continued)

3.5 *Capital management*

The Company's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- To comply with the capital requirements under the Banking (Capital) Rule of the Hong Kong Banking Ordinance;
- 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;
- To support the Company's stability and growth;
- To allocate capital in an efficient and risk based approach to optimize risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

For the Company's funding requirements, it relies principally on time deposits from customers and parent bank as well as internally generated capital. The Company adopts a prudent policy on capital management and the funding position is monitored and reviewed regularly to ensure it is at a reasonable cost.

The Hong Kong Banking Ordinance requires each authorized institution to maintain a ratio of total regulatory capital to the risk-weighted assets (the capital adequacy ratio) at or above the minimum of 8%.

During the year ended 31 December 2018 and 2017, the Company complied with the capital requirements under the Hong Kong Banking Ordinance.

3.6 *Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external sources. Operational risk management (ORM) involves the management of all business processes, employees and manual and automated systems to minimise the adverse effects of these risks.

The Company has put in place an internal control process that requires the establishment of policies and procedures for key business activities. Proper segregation of duties and authorisation are the fundamental principles followed by the Company. It is the duty of every employee to manage the risks inherent to his functions. The supervisors have the primary responsibility to monitor compliance with existing ORM policies, standards, guidelines and procedures.

Business continuity plans are in place to support business operations in the event of emergency or disaster.

4 Critical accounting estimates and assumptions

The Company makes certain assumptions and estimates in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Judgements*

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

– Applicable to 2018 only:

Note 2(c)(i): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Note 2(c)(i): 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 and approval of models used to measure ECL.

(b) *Assumption and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes.

– Applicable to 2018 only:

Note 2(c)(i): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

– Applicable to 2018 and 2017:

Note 2(t): recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

5 Interest income

	2018 HK$'000	*2017* HK$'000
Interest income on investments in securities	2,360	2,497
Interest income on placements with banks	5,074	2,916
Interest income from advances to customers	1,083	437
	8,517	5,850

6 Other operating income

	2018 HK$'000	*2017* HK$'000
Service fees and commission income	17,039	14,720
Foreign exchange gains from customer transactions	199	882
Net gain from dealing in securities	3,492	4,946
Net gain on redemption/disposal of Available-for-sale securities	-	27
Dividend income	15,000	1
Other income	-	2
	35,730	20,578

7 Gain from disposal of subsidiary

	2018 HK$'000	*2017* HK$'000
Gain from disposal of subsidiary	19,100	-
	19,100	-

The Company transferred its 100% ordinary share of BPI Remittance Centre (HK) Limited to its ultimate holding company, Bank of Philippines Islands on 24 October 2018 in specie distribution of dividend with consideration of HKD19.6 million. Board of the Company passed a resolution on 28 August 2018 to approve the disposal and confirmed the net asset value of BPI Remittance Centre (HK) Limited is HKD19.6 million. The cost of investment in subsidiary, BPI Remittance Centre (HK) Limited is HKD500,000, HKD19.1 million was recognised as gain from disposal of subsidiary through Profit and Loss for the reporting period.

8 Operating expenses

	2018 HK$'000	*2017* HK$'000
Staff costs:		
– Wages and salaries	16,711	10,817
– Pension costs - defined contribution plans	453	318
– Other benefits and allowance	3,157	2,989
Rental of premises	4,044	3,813
Depreciation (Note 19)	279	943
Auditor's remuneration	980	877
Telecommunication and postage	1,149	816
Other operating expenses	6,259	4,008
	33,032	24,581

Staff costs include directors' emoluments (Note 9).

9 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:

	2018 HK$'000	*2017* HK$'000
Salaries	2,217	1,535
Employer's contribution to a retirement scheme	18	-
	2,235	1,535

10 Income tax expense

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

	2018 HK$'000	*2017* HK$'000
Write-off of deferred tax assets recognised in prior years	-	223
Net charge to profit or loss	-	223

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 as the Company sustained a loss for taxation purpose for the current year.

For the year ended 31 December 2018, the provision for Hong Kong Profits Tax was calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

The Company has not recognised its tax loss of approximately HK$8,377,000 (2017: approximately HK$1,072,000) as it is not probable that the future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

10 Income tax expense (continued)

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

	2018 HK$'000	2017 HK$'000
Profit before taxation	26,984	(9)
Calculated at a taxation rate of 16.5% (2017: 16.5%)	4,452	(1)
Tax effect of non-taxable income	(5,704)	-
Tax effect of non-deductible expenses	46	1
Tax loss not recognised	1,206	-
Write-off of deferred tax assets recognised in prior years	-	223
	-	223

(c) *The tax credit relating to components of other comprehensive income is as follows:*

	2018			2017		
	Before tax HK$'000	Tax debit HK$'000	After tax HK$'000	Before tax HK$'000	Tax debit HK$'000	After tax HK$'000
Change in value of financial assets designated at fair value through other comprehensive income	(290)	-	(290)	-	-	-
Other comprehensive income	(290)	-	(290)	-	-	-
Deferred tax asset/(liabilities)		-			-	

	2018			2017		
	Before tax HK$'000	Tax debit HK$'000	After tax HK$'000	Before tax HK$'000	Tax debit HK$'000	After tax HK$'000
Change in value of Available-for-sale securities	-	-	-	(282)	22	(260)
Other comprehensive income	-	-	-	(282)	22	(260)
Deferred tax asset/(liabilities)		-			22	

11 Cash and short-term funds

	2018 HK$'000	*2017* HK$'000
Cash and balances with banks and other financial institutions	56,904	38,121
Placements with banks and other financial institutions maturing within one month	85,906	52,233
Credit impairment for cash and short-term funds	(216)	-
	142,594	90,354

12 Placements with banks and other financial institutions maturing between one and twelve months

	2018 HK$'000	*2017* HK$'000
Placements with banks and other financial institutions		
– maturing between 1 and 3 months	173,388	169,091
– maturing between 3 and 12 months	-	18,914
Credit impairment for placements with banks and other financial institutions maturing between one and twelve months	(225)	-
	173,163	188,005

13 Financial assets designated at amortised cost

	2018 HK$'000	*2017* HK$'000
Financial assets designated at amortised cost		
- Listed outside Hong Kong and issued by banks and other financial institutions	4,017	-
- Listed outside Hong Kong and issued by central government	15,285	-
Credit impairment for financial assets designated at amortised cost	(17)	-
	19,285	-
Fair value of listed securities	19,223	-
	19,223	-

14 Held-to-maturity securities

	2018 HK$'000	*2017* HK$'000
Held-to-maturity securities		
- Listed outside Hong Kong and issued by banks and other financial institutions	-	4,033
- Listed outside Hong Kong and issued by central government	-	15,458
	-	19,491
Fair value of listed securities	-	19,474
	-	19,474

15 Advances and other accounts

	2018 HK$'000	*2017* HK$'000
Advances to customers	43,407	17,754
Other accounts	7,867	5,828
	51,274	23,582

16 Financial assets designated at fair value through other comprehensive income

	2018 HK$'000	*2017* HK$'000
Financial assets designated at fair value through other comprehensive income		
- Listed outside Hong Kong and issued by banks and other financial institutions	42,443	-
- Listed inside Hong Kong and issued by banks and other financial institutions	11,074	-
- Listed outside Hong Kong and issued by corporate entities	1,850	-
- Listed inside Hong Kong and issued by corporate entities	-	-
- Listed outside Hong Kong and issued by central government	14,544	-
	69,911	-

17 Available-for-sale securities

	2018 HK$'000	2017 HK$'000
Available-for-sale securities		
- Listed outside Hong Kong and issued by banks and other financial institutions	-	61,615
- Listed inside Hong Kong and issued by banks and other financial institutions	-	11,069
- Listed outside Hong Kong and issued by corporate entities	-	2,002
- Listed inside Hong Kong and issued by corporate entities	-	6,286
- Listed outside Hong Kong and issued by central government	-	23,258
	-	104,230

18 Subsidiary

The Company does not hold any subsidiaries on 31 December 2018. BPI International Finance Limited transferred its 100% ordinary share of BPI Remittance Centre (HK) Limited to its ultimate holding company, Bank of Philippines Islands on 18 October 2018.

The following is a list of the principal subsidiary on 31 December 2017:

Name	*Proportion of ordinary shares directly held by the Company (%)*	*Proportion of ordinary shares held by the Company (%)*	*Proportion of ordinary shares held by non-controlling interests (%)*	*Proportion of preference shares held by the Company (%)*
BPI Remittance Centre (HK) Limited	100.00%	100.00	-	-

19 Fixed assets

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
At 1 January 2017			
Cost	2,636	1,411	4,047
Accumulated depreciation	(2,188)	(1,085)	(3,273)
Net book amount	448	326	774
Year ended 31 December 2017			
Opening net book amount	448	326	774
Additions	180	159	339
Depreciation charge	(628)	(315)	(943)
Closing net book amount	-	170	170
At 31 December 2017 and 1 January 2018			
Cost	2,816	1,571	4,387
Accumulated depreciation	(2,816)	(1,401)	(4,217)
Net book amount	-	170	170
Year ended 31 December 2018			
Opening net book amount	-	170	170
Additions	5	328	333
Depreciation charge	(3)	(276)	(279)
Closing net book amount	2	222	224
At 31 December 2018			
Cost	2,821	1,899	4,720
Accumulated depreciation	(2,819)	(1,677)	(4,496)
Net book amount	2	222	224

20 Share capital

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital HK$'000
At 1 January 2017, 31 December 2017 and 31 December 2018	75,000	75,000

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.

21 Reserves

The Company's reserves and the movements therein for the current and prior years are presented in the statement of changes in equity on page 9 of the financial statements.

As at 31 December 2018, an amount of HK$1,691,649(2017: HK$1,691,649) was earmarked from retained earnings as a regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve, if any, are made directly through retained earnings following consultation with the Hong Kong Monetary Authority.

22 Lease commitments

At 31 December the future aggregate minimum lease payment under non-cancellable operating leases in respect of the premises is as follows:

	2018 HK$'000	2017 HK$'000
No later than one year	4,449	9,000
Later than one year and no later than five years	122	4,271
	4,571	13,271

23 Off-balance sheet exposures

Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment as at 31 December:

	2018 HK$'000	2017 HK$'000
Commitment		
Loan commitments with an original maturity of under 1 year or which are unconditionally cancellable without prior notice	3,639	18,872
Loan commitments with an original maturity of under 1 year	5,208	12,581
	8,847	31,453

24 Loans to officers

As at 31 December 2018, there is no loan made to officers as pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32).

25 Related party transactions

Following transaction was carried out with related parties:

(a) *Transaction amount during the year with related parties:*

	2018 HK$'000	2017 HK$'000
Transfer of subsidiary to ultimate holding company	500	-
System services charge from ultimate holding company	624	648
	1,124	648

System service charge represents charges for usage of ultimate holding company's systems and various processes outsourced to BPI Global Services. Charges are fixed fee per month.

25 Related party transactions (continued)

(b) Year-end balances with related parties:

	2018 HK$'000	*2017* HK$'000
Bank balance held in ultimate holding company	394	3,211

The bank balance held with the ultimate holding company which is a bank in the Republic of the Philippines. The balance are unsecured in nature and interest-bearing at commercial rate.

(c) Key management compensation:

Key management includes director, heads of departments. The compensation paid or payable to key management for employee services is shown below:

	2018 HK$'000	*2017* HK$'000
Salaries and other short-term employee benefits	8,348	7,120

Director compensation is also disclosed in note 9 to the financial statements.

26 Note to the cash flow statement

Reconciliation of profit before taxation to net cash inflow from operating activities:

	2018 HK$'000	*2017* HK$'000
Profit before taxation	26,984	(9)
Adjustments for:		
Net interest income	(5,818)	(3,994)
Depreciation of fixed assets	279	943
Credit impairment	632	-
Dividend income	(15,000)	(1)
Net gain on disposal of Financial assets designated at fair value through other comprehensive income	-	(27)
Net gain from disposal of subsidiary	(19,100)	-
Changes in working capital:		
(Increase)/decrease in placements with banks and other financial institutions with original maturity over three months	(31,411)	23,734
(Increase)/decrease in advances and other accounts	(21,535)	3,528
Increase in time deposits from customers	25,624	21,225
(Decrease)/increase in other payables	(5,298)	5,558
Cash (used in)/generated from operating activities	(44,643)	50,957

27 Immediate and ultimate holding company

The immediate and ultimate holding company is Bank of the Philippine Islands, a bank incorporated and listed in the Republic of the Philippines. This entity produces financial statements available for public use.

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 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
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (continued)

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Company has identified some aspects of HKFRS 16 which may have a significant impact on the financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of the standard may differ as the assessment completed to date is based on the information currently available to the Company, and further impacts may be identified before the standard is initially applied in the Company's financial statements for the year ended 31 December 2019. The Company may also change its accounting policy elections, including the transition options, until the standard is initially applied in the financial statements.

HKFRS 16, *Leases*

As disclosed in note 2(s), currently the Company classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Company enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that the Company accounts for its rights and obligations under a lease when it is the lessor under the lease. However, once HKFRS 16 is adopted, the Company will no longer distinguish between finance leases and operating leases when it is the lessee under the lease. Instead, subject to practical expedients, the Company will be required to account for all leases of more than 12 months in a similar way to current finance lease accounting.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss and other comprehensive income over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Company plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 22, at 31 December 2018 the Company's future minimum lease payments under non-cancellable operating leases amount to approximately $4,571,000 (2017: approximately HK$13,271,000), the majority of which is payable within 1 year.

29 Approval of financial statements

The financial statements were approved by the board of directors on 2 6 APR 2019

BPI International Finance Limited
Unaudited Supplementary Information

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

1 Liquidity Position

	2018	2017
Average liquidity maintenance ratio	379.40%	503.03%

The liquidity maintenance ratio ("LMR") is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015. The average liquidity maintenance ratio is calculated based on the average value of the LMR for each calendar month as reported in the liquidity position return submitted to the Hong Kong Monetary Authority ("HKMA").

Liquidity risk management process

The liquidity condition of the Company is monitored on a daily basic by the Company's chief executive. The balance between liquidity and profitability is carefully considered but the former is given higher priority in case of conflicts in meeting targets or regulatory requirements.

2 Other than functional currency concentrations

	EUR HK$'000	*US$* HK$'000	*GBP* HK$'000	*AUD* HK$'000	*PHP* HK$'000	*Total* HK$'000
Equivalent in Hong Kong dollars 2018						
Spot assets	189	394,843	226	26,927	28	422,213
Spot liabilities	-	(261,060)	-	(26,753)	(2)	(287,815)
Net long position	189	133,783	226	174	26	134,398
Net structural position		-				-
Equivalent in Hong Kong dollars 2017						
Spot assets	31	349,870	31	29,176	97	379,205
Spot liabilities	-	(237,708)	-	(29,173)	(3)	(266,884)
Net long position	31	112,162	31	3	94	112,321
Net structural position		-				-

3 Non-Bank Mainland China Exposures

The analysis of mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by HKMA under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland activities. This includes the mainland activities exposures extended by the Bank and its mainland banking subsidiary.

2018	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
1. Central government, central government-entities and their subsidiaries and 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	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total assets after provision	-		
On-balance sheet exposures as percentage of total assets	-		

3 Non-Bank Mainland China Exposures (continued)

2017	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
1. Central government, central government-entities and their subsidiaries and JVs	6,286	-	6,286
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	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	6,286	-	-
Total assets after provision	424,640		
On-balance sheet exposures as percentage of total assets	1.48%		

4 Capital structure and adequacy

(a) *Risk-weighted amount for credit risk*

The Company uses the basic approach for calculation of credit risk.

	2018 HK$'000	*2017* HK$'000
Sovereign exposures	16,072	17,794
Public Sector Entity exposures	1,850	2,002
Bank exposures	77,959	74,241
Other exposures	48,856	26,687
Exposure subject to 1250% risk-weight	1,042	-
Total risk-weighted amount for on-balance sheet exposures	145,779	120,724
Transaction-related contingencies	-	-
Trade-related contingencies	-	-
Total risk-weighted amount for off-balance sheet exposures	-	-
Total risk-weighted amount for credit risk	145,779	120,724

(b) *Risk-weighted amount for market risk*

The Company is exempted from the calculation of market risk in 2018 and 2017.

(c) *Risk-weighted amount for operational risk*

The Company uses the basic indicator approach for calculation of operational risk.

	2018 HK$'000	*2017* HK$'000
Risk-weighted amount for operational risk	53,463	40,700

5 Segmental information

(i) By geographical areas

Information has been classified according to the location of the principal operations of the Company. All of the Company's principal operations are conducted in Hong Kong.

(ii) Advances to customers

Gross advances to customers by industry sectors

	2018 HK$'000	*2017* HK$'000
Loans for use in Hong Kong		
- Individuals - others	-	-
Loans for use outside Hong Kong	43,407	17,754
	43,407	17,754

Gross advances to customers by geographical area

	2018 HK$'000	*2017* HK$'000
Residential status of customers:		
The Philippines	43,407	17,754

The above gross advances only include gross advances to customers. The related collective provisions maintained in regulatory reserve source from the same geographical area.

5 Segmental information (continued)

(iii) International claims

International claims are on-balance sheet exposure to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the Company's total international claims.

2018			*Non-Bank Private Sector*			
	Banks HK$'000	*Official Sector* HK$'000	*Of which: Non-bank financial institution* HK$'000	*Of which: non-financial private sector* HK$'000	*Other* HK$'000	*Total* HK$'000
1. Developed Countries						
of which Australia	7,000	-	-	-	-	7,000
of which United Kingdom	49,000	-	-	-	-	49,000
of which United States	17,000	15,000	-	-	-	32,000
of which Japan	8,000	-	-	-	-	8,000
2. Offshore Centers						
of which Cayman Island	-	-	-	-	-	-
of which Singapore	-	-	-	-	-	-
of which Hong Kong	247,000	-	-	-	-	247,000
3. Developing Africa and Middle East						
of which United Arab Emirates	6,000	-	-	-	-	6,000
4. Developing Asia and Pacific						
of which Philippines	4,000	1,000	-	45,000	-	50,000
of which Indonesia	-	13,000	-	-	-	13,000
of which South Korea	-	-	7,000	-	-	7,000

2017			*Non-Bank Private Sector*			
	Banks HK$'000	*Official Sector* HK$'000	*Of which: Non-bank financial institution* HK$'000	*Of which: non-financial private sector* HK$'000	*Other* HK$'000	*Total* HK$'000
1. Developed Countries						
of which Australia	7,000	-	-	-	-	7,000
of which United Kingdom	16,000	-	-	6,000	-	22,000
of which United States	25,000	23,000	-	-	-	48,000
of which Japan	8,000	-	-	-	-	8,000
2. Offshore Centers						
of which Cayman Island	-	-	-	-	-	-
of which Singapore	-	-	-	-	-	-
of which Hong Kong	273,000	-	-	-	-	273,000
3. Developing Africa and Middle East						
of United Arab Emirates	8,000	-	-	-	-	8,000
4. Developing Asia and Pacific						
of which Philippines	7,000	3,000	-	22,000	-	32,000
of which Indonesia	-	-	-	14,000	-	14,000
of which South Korea	-	-	11,000	-	-	11,000

5 Segmental information (continued)

(iv) By class of business

The Company is primarily engaged in Retail and Corporate business, and Treasury activities.

Retail and Corporate business mainly covers deposit taking, consumer finance and securities services.

Treasury activities relate to the managing of capital, liquidity, interest rate and foreign exchange positions of the Company in addition to proprietary trades.

Business segments

2018	*Retail and Corporate business* HK$'000	*Treasury* HK$'000	*Others* HK$'000	*Total* HK$'000
Interest income - external	6,157	2,360	-	8,517
Interest expense - external	(2,699)	-	-	(2,699)
Net interest income	3,458	2,360	-	5,818
Net fees and commission income	17,039	-	-	17,039
Other operating income	18,691	-	-	18,691
Total operating income	39,188	2,360	-	41,548
Gain from disposal of subsidiary	19,100	-	-	19,100
Credit impairment	(632)	-	-	(632)
Operating expenses	(33,032)	-	-	(33,032)
Profit before taxation	24,624	2,360	-	26,984
Depreciation and amortisation charge			279	279
Segment assets				
Total assets	359,227	89,196	8,028	456,451
Segment liabilities				
Total liabilities	288,016	-	3,694	291,710

5 Segmental information (continued)

2017	*Retail and Corporate business* HK$'000	*Treasury* HK$'000	*Others* HK$'000	*Total* HK$'000
Interest income - external	3,353	2,497	-	5,850
Interest expense - external	(1,856)	-	-	(1,856)
Net interest income	1,497	2,497	-	3,994
Net fees and commission income	14,720	-	-	14,720
Other operating income	5,858	-	-	5,858
Total operating income	22,075	2,497	-	24,572
Operating expenses	(24,581)	-	-	(24,581)
Profit before taxation	(2,506)	2,497	-	(9)
Depreciation and amortisation charge			943	943
Segment assets				
Total assets	296,113	124,221	5,998	426,332
Segment liabilities				
Total liabilities	259,693	-	8,992	268,685

6 Overdue and rescheduled loans

There were no overdue and rescheduled loans and repossessed assets as at 31 December 2018 (2017: Nil).

7 Corporate Governance

The Company has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorized Institutions" issued by HKMA.

Board of Directors

The Board of Directors is ultimately responsible for the operations and the financial soundness of the Company. The ultimate goal is to meet its overall responsibility to all its shareholders, depositors, creditors, employees and other stakeholders. The responsibilities include the following:

(a) Ensure competent management

- Appoint Chief Executive with integrity, technical competence, and experience in banking business enabling him/her to administer the Company's affairs effectively and prudently.
- Oversee the appointment of other senior executives such as the division heads.
- Approve the management succession policy of the Company.
- Effectively supervise senior management's performance on an ongoing basis.

(b) Approve objectives, strategies and business plans

- The Company shall establish its objectives and draw up a business strategy for achieving them.
- Consistent with the Company's objectives, business plans shall be established to direct the on-going activities of the Company.
- The Board of Directors shall approve these objectives, strategy and business plans, and ensure that performance against plan is regularly reviewed.
- The Board of Directors shall approve annual budgets and review performance against these budgets.

(c) Ensure that the operations of the Company are conducted prudently, and within the framework of applicable laws and policies

- The Board of Directors shall ensure that the internal control systems of the Company are effective and that the Company's operations are properly controlled and comply with policies approved by the Board as well as with laws and regulations.
- The Board of Directors are ultimately responsible for ensuring that the Company complies with laws and regulations, in particular the Hong Kong Banking Ordinance.

7 Corporate Governance (continued)

(d) Ensure and monitor that the Company conducts its affairs with a high degree of integrity

- The Board of Directors shall ensure that the Company observes a high standard of integrity in its dealings with the public.

- Particular case shall be taken to comply with laws and regulations of statutory bodies in order to ensure the Company conducts its affairs with a high degree of integrity.

- The Board of Directors shall ensure that the Company's remuneration policy is consistent with its ethical values, objectives, strategies and control environment.

- The Board of Directors shall approve a set of ethical values which are communicated throughout the Company such as code of conduct.

- The Board of Directors shall establish policies and procedures to ensure compliance with ethical values.

The Company has established three Board level committees: the Audit Committee, the Risk Committee and the Remuneration Committee.

Audit Committee

The Committee is accountable to the Board and:

- provides independent monitoring, review and supervision of the effectiveness and adequacy of the internal control systems of IFL, including its financial reporting controls and information technology security; and

- re-inforces the work of internal and external auditors.

The Committee shall provide oversight over the:

- Overall management of credit, market, liquidity, operational, legal and other risks of IFL;

- Internal auditors and external auditors; and

- Quality of compliance with IFL's corporate governance policies and the applicable laws, rules and regulations.

7 Corporate Governance (continued)

Risk Committee

The Risk Committee is a stand-alone committee that is separate and distinct from the Company's Audit Committee.

The Committee shall provide advice to and assist the Board in fulfilling its responsibility of overseeing the Company's risk management frameworks which include risk governance and the Company's risk appetite framework.

The responsibilities of the Committee include, among other things:

a) Understanding the overall risk profile of the Company and ensuring that the risks assumed by the company are properly managed;

b) Creating a strong risk culture throughout the Company and ensure that the Company's risk appetite is well enshrined within the culture;

c) Develop an organization and management structure with a sound control environment, adequate segregation of duties and clear accountability and lines of authority;

d) Evaluating at least annually the risks faced by the Company, and maintaining continually awareness of the Company's business and risk profiles and changes in the operating environment and financial markets that may give rise to emerging risks;

e) Ensuring that the necessary infrastructure, systems and controls are developed and maintained to support effective risk management and governance; and

f) Setting up controls to ensure the integrity of the Company's overall risk management process and to monitor the Company's compliance with all applicable laws, regulations, supervisory standards, best practices and internal policies and guidelines;

7 Corporate Governance (continued)

Remuneration Committee

The Committee provide advice to and assists the Board in discharging its responsibility for the design and operation of the Company's remuneration system and make recommendations in respect of remuneration policy and practices to the Board.

The Committee makes recommendations on the formulation and implementation of a written remuneration policy for the Company.

Other Specialised Committees

The Company has also established the following management level committees:

(a) Executive Committee

The Board of Directors of the Company serves as the Executive Committee of the Company.

It executes resolutions adopted in any stockholders' meetings, while the Company adopts business direction from the Board of Directors of the Company.

(b) Assets and Liability Committee

The Asset and Liability Committee (ALCO) manages the Company's assets and liabilities. Specifically, its objective is to plan, direct and control the levels, mix, volume and spreads on the various balance sheet and off balance sheet accounts. Aside from developing balance sheet strategies, the ALCO reviews and updates existing policies and guidelines and makes the necessary adjustments as needed to adapt to the changing financial environment.

This committee meets on a regular basis to discuss market developments, financial performance and risk and compliance issues and other matters relevant to the Company's business of managing house and clients' funds.

The ALCO members are: the Chief Executive, Chief Operating Officer, Head of Risk and the Treasury Head.

(c) Risk Management Committee

The management level Risk Management Committee (RMC) oversees and manages the Company's exposures to risks and monitors the Company's regulatory and internal capital adequacy via these exposures to risks.

7 Corporate Governance (continued)

RMC monitors the credit risk, market risk and operational and IT risks and other risk areas by

- reviewing the existing credit exposure to monitor the exposure portfolio quality and credit concentration risk
- reviewing stress test and sensitivity analysis for the exposure portfolio
- reviewing the defined risk limits
- monitoring completeness and relevance of management and operating manual including business continuity plan
- overseeing the implementation of a sound business continuity management framework

The RMC members are appointed by the chief executive and is composed of Head of Risk, the COO, the CFO and the senior compliance person.

This committee meets on a monthly basis. Special meetings may be convened by any member of the Committee or the RMC Chairperson anytime as the need arises.

(d) Anti-Money Laundering and Counter Financing of Terrorism Committee

The Anti-Money Laundering and Counter Financing of Terrorism Committee (AML/CFT committee) is responsible for the consistent and effective implementation of AML/CFT guidelines, and is responsible in conducting a regular risk analysis and ensuring that AML/CFT systems are capable of addressing the risks identified.

The members of the AML/CFT committee are: the Money Laundering Reporting Officer, the Chief Executive, the Chief Operating Officer, Head of Compliance, Head of Risk and Head of Legal. The committee meets on a monthly basis to oversee, manage, evaluate and approve the standards of the suspicious transaction to ensure the appropriate actions are observed.

(e) Products Committee

The Committee:

- Reviews and approves the securities/investment products to be marketed and/or recommended to clients;
- Reviews and approves the product due diligence performed; and
- Monitors the performance of the recommendatory securities list and reports to the Board in a timely manner any significant risks identified which may adversely impact the Company and/or the BPI Group of Companies.

7 Corporate Governance (continued)

REMA: Remuneration Policy

The Company establishes a Remuneration Policy which governs the setup of a Board Level Remuneration Committee and formulates the principles of remuneration determination for its staff. The Remuneration Policy of the Company promotes an overall scheme of remuneration that matches the Company's business objectives, risk tolerance and risk management framework.

The Company has complied with the requirement set out in Part 3 (disclosure on remuneration) of the Supervisory Policy Manual CG-5 entitled "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority in all material aspects.

Below are some relevant Policies:

- Governance

  The Remuneration Committee is a BPI IFL Board level committee that reviews and approves BPI IFL's remuneration policy. The consistent, continuing implementation of the policy shall be the responsibility of the Board and the local human resources responsible personnel. An annual review of the policy shall be conducted and passed upon by the Board to ensure compliance with the guideline.

- Remuneration Structures

  Besides monthly fixed pay, employee may be entitled to a variable compensation which depends on the performance of the Company, team, and individual employee.

- Performance Measurement

  A Performance & Planning Review (PPR) is conducted annually. Individual employee's goals and key performance index should be set at the beginning of a year and to be agreed with his/her manager. Mid-year review is highly recommended. Under the PPR process, employees are required to prepare and approve by their manager on current year objective and expected deliverables which can be quantifiable. The PPR is a base to evaluate the performance of each employee for previous year.

- Senior Management and Key Personnel Compensation

  The aggregate fixed and variable income payouts of the senior management and key personnel of the Company (in accordance with the disclosure requirement of 3.2.3 of the Guideline) were HK$8,348,019 for 2018 (2017: HK$7,119,996).

  There were no deferred remuneration for 2018.