BPI International Finance Limited

Audited Report and Financial Statement
For the year ended 31 December 2019

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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 2019.

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 2019 are set out in the statement of profit and loss and other comprehensive income on page 6.

The directors do not recommend the payment of a dividend in 2019. In 2018, the directors recommended the transfer of BPI Remittance Centre (HK) Limited to its ultimate holding company, Bank of Philippines Islands, in specie distribution of dividends with consideration of HKD19.6 million.

Share capital

Details of the movements in the 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	
Jonathan Paul Back	
Ki Myung Hong	
Tomas S. Chuidian	
Sheila Marie Uriarte Tan	(Appointed on 23 January 2020)
Jesse Ong Ang	(Appointed on 23 January 2020)
Ma. Carmencita S. Bustamante	(Resigned on 23 January 2020)

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

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 income, its state of affairs, and capital adequacy. The financial statements for the financial year ended 31 December 2019 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

Jonathan Paul Back

Hong Kong

21 APR 2020

KPMG

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 52, which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and 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 (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment 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 (continued)

(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

2 1 APR 2020

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

	Note	*2019* HK$'000	*2018* (Note) HK$'000
Interest income	5	9,092	8,517
Interest expense		(2,677)	(2,699)
Net interest income		6,415	5,818
Other operating income	6	22,691	35,730
Total operating income		29,106	41,548
Gain from disposal of subsidiary	7	-	19,100
Credit impairment release/(charged)		632	(632)
Operating expenses	8	(50,823)	(33,032)
(Loss)/profit from operations		(21,085)	26,984
Finance Costs	11	(238)	-
(Loss)/profit before taxation		(21,323)	26,984
Income tax	10(a)	-	-
(Loss)/profit for the year		(21,323)	26,984

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

	Note	*2019*	*2018* (Note)
		HK$'000	HK$'000
(Loss)/profit for the year		(21,323)	26,984
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)	619	(290)
Total comprehensive income for the year		(20,704)	26,694

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

The notes on pages 13 to 52 are an integral part of these financial statements.

Statement of financial position as at 31 December 2019

	Note	*2019*	*2018* (Note)
		HK$'000	HK$'000
Assets			
Cash and short-term funds	12	111,287	142,594
Placements with banks and other financial institutions maturing between one and twelve months	13	131,917	173,163
Financial assets designated at amortised cost	14	3,969	19,285
Advances and other accounts	15	26,120	51,274
Financial assets designated at fair value through other comprehensive income	16	96,701	69,911
Fixed assets	18	18,071	224
Total assets		388,065	456,451
Liabilities			
Time deposits from customers		224,533	288,016
Lease liabilities	19	12,462	-
Other payables		7,033	3,694
Total liabilities		244,028	291,710

Statement of financial position as at 31 December 2019 (continued)

	Note	*2019*	*2018* (Note)
		HK$'000	HK$'000
Equity			
Share capital	20	75,000	75,000
Retained earnings	21	68,857	90,180
Investment revaluation reserve	21	180	(439)
		144,037	164,741
Total equity and liabilities		388,065	456,451

The financial statements on pages 6 to 52 were approved by the Board of Directors on and were signed on its behalf.

Jonathan Paul Back
Director 21 APR 2020

Archie Lin
Director 21 APR 2020

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

The notes on pages 13 to 52 are an integral part of these financial statements.

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

	Share capital	*Investment revaluation reserve*	*Retained earnings* (Note)	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000
At 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 and 1 January 2019	75,000	(439)	90,180	164,741
Comprehensive income				
Loss for the year	-	-	(21,323)	(21,323)
Other comprehensive loss				
Change in fair value of Financial assets designated at fair value through other comprehensive income, net of tax	-	619	-	619
Total comprehensive income for the year	-	619	(21,323)	(20,704)
At 31 December 2019	75,000	180	68,857	144,037

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

The notes on pages 13 to 52 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2019

	Note	*2019*	*2018* (Note)
		$'000	$'000
Net cash outflow from operating activities before taxation	26	(11,099)	(44,643)
Hong Kong profits tax paid		-	-
Net cash outflow from operating activities after taxation		(11,099)	(44,643)
Investing activities			
Purchases of Fixed assets		(7,216)	(333)
Purchase of Financial assets designated at fair value through other comprehensive income		(82,450)	-
Purchase of Financial assets designated at amortised cost		(401)	(15,264)
Proceeds from redemption of Financial assets designated at fair value through other comprehensive income		55,469	32,138
Proceeds from redemption of Financial assets designated at amortised cost		15,658	15,661
Interest received from Financial assets designated at fair value through other comprehensive income		2,332	3,742
Interest received from financial asset designated at amortised cost		597	127
Dividend received		-	15,000
Net cash (outflow)/inflow from investing activities		(16,011)	51,071

Statement of cash flows
for the year ended 31 December 2019 (continued)

	Note	*2019*	*2018* (Note)
		$'000	$'000
Financing activities			
Lease payment (principal portion)		(3,101)	-
Lease payment (interest portion)		(238)	-
Net cash outflow from financing activities		(3,339)	-
(Decrease)/increase in cash and cash equivalents		(30,449)	6,428
Cash and cash equivalents at 1 January		258,036	251,608
Cash and cash equivalents at 31 December		227,587	258,036
Balances with banks and other financial institutions	12	84,750	56,904
Placement with banks and other financial institutions with original maturity within three months		142,837	201,132
		227,587	258,036

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

The notes on pages 13 to 52 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 5/F, LHT Tower, 31 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 the 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)

(b) Basis of preparation of the financial statements (continued)

Judgements made by management in the application of HKFRSs that have a 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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the company.

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

HKFRS 16, *Leases*

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

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

The Company has initially applied HKFRS 16 as of 1 January 2019. The Company has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019, if any. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

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

2 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

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

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Company is concerned, these newly capitalised leases are primarily in relation to property, plant, and equipment, as disclosed in note 22. For an explanation of how the Company applies lessee accounting, see note 2(o).

At the date of transition to HKFRS 16 (i.e., 1 January 2019), the Company determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2%.

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

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

2 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

The following table reconciles the operating lease commitments as disclosed in note 22 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018	4,571
Less: commitments relating to leases exempt from capitalisation:	
- short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(4,154)
- leases of low-value assets	(203)
Less: total future interest expenses	(2)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	212
Total lease liabilities recognised at 1 January 2019	212

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

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

	Carrying amount at 31 December 2018 HK$'000	*Capitalisation of operating lease contracts* HK$'000	*Carrying amount at 1 January 2019* HK$'000
Line items in the statement of financial position impacted by the adoption of HKFRS 16:			
Fixed assets	224	212	436
Lease liabilities	-	(212)	(212)

2 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

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

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

In the statement of cash flows on pages 11-12 of the financial statements, the Company as a lessee is required to split rentals paid under capitalised leases into their capital element and an interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16, therefore, results in a significant change in the presentation of cash flows within the statement of cash flows.

(d) Interest income and expense

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on the 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.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income ("OCI") includes:

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

(ii) interest on debt instruments measured at FVOCI.

2 Significant accounting policies (continued)

(d) Interest income and expense (continued)

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

(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 fees 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.

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:

(i) 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 to the 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)

(g) Investment in debt and equity securities (continued)

(i) Investments other than equity investments (continued)

If the contractual cash flows of the non-equity investments held by the Company represent solely to the 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.

(ii) 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.

(h) Loans and receivables

'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.

(i) Credit impairment

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.

2 Significant accounting policies (continued)

(i) Credit impairment (continued)

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 results 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'.

Lifetime 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 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 'credit impairment' in the statement of profit or loss and other comprehensive income.

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

2 Significant accounting policies (continued)

(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 the 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.

(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 the 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. The 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 the investment in a subsidiary is revalued to its fair value. Still, the difference between consideration transferred and the book value of the investment in a subsidiary will be recorded in equity as distribution/contribution from the shareholder, while the difference between book value and fair value of subsidiary will be recorded as profit or loss.

2 Significant accounting policies (continued)

(n) Fixed assets

Fixed assets, including right-of-use assets arising from leases of underlying property, plant and equipment (see note 2(o)), are stated at cost less accumulated depreciation and impairment losses.

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
Right of use assets	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.

(o) Leased assets

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

(i) As a lessee

(A) Policy applicable from 1 January 2019

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

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

2 Significant accounting policies (continued)

(o) Leased assets (continued)

(i) As a lessee (continued)

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

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

The right-of-use asset is recognised when a lease that is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(n)).

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

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

(B) Policy applicable prior to 1 January 2019

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

- property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as an investment property, was accounted for as if held under a finance lease; and

2 Significant accounting policies (continued)

(o) Leased assets (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to 1 January 2019 (continued)

- land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease unless the building as also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Company, or taken over from the previous lessee.

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

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

(p) 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.

2 Significant accounting policies (continued)

(p) Current and deferred income tax (continued)

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

The 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.

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:

2 Significant accounting policies (continued)

(p) Current and deferred income tax (continued)

- 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.

(q) 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.

(r) 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.

(s) Translation of foreign currencies

Items included in the financial statements of the Company is 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.

2 Significant accounting policies (continued)

(s) Translation of foreign currencies

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 financial assets designated at fair value through other comprehensive income are included in the other comprehensive income and accumulated in investment revaluation reserve in equity.

(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 are not recognised because it is not probable that the 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.

(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.

2 Significant accounting policies (continued)

(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 apply:

- (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 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.

(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 activities undertaken by the Company.

The Company has no significant concentrations of credit risk on the individual customer. Due to the nature of the business of the Company, the Company has a 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. The Company's internal auditors independently review compliance with these policies/procedures with formal reporting on the results of examinations to the Board of Directors of the Company. Risk Management Committee ("RMC") is responsible for the monitoring of the Company's credit risk.

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

	2019 HK$'000	*2018* HK$'000
On-balance sheet assets		
Cash and short-term funds	111,287	142,594
Placements with banks and other financial institutions maturing between one and twelve months	131,917	173,163
Financial assets designated at amortised cost	3,969	19,285
Advances and other accounts	26,120	51,274
Financial assets designated at fair value through other comprehensive income	96,701	69,911
Off-balance sheet items		
Loan commitment and contingent liabilities	6,284	8,847
	376,278	465,074

3 Financial and operational risk management (continued)

3.1 Credit risk (continued)

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

The maximum exposure is the 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.

(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 times. 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

	2019 HK$'000	*2018* HK$'000
Personal loans	18,956	43,407

3 Financial and operational risk management (continued)

3.1 *Credit risk (continued)*

(b) Gross advances to customers (continued)

(i) Gross advances by customer type (continued)

As at the 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 2019 and 2018.

(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.

	2019 HK$'000	*2018* HK$'000
The Philippines	18,956	43,407

(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 14 and 16 for the analysis of the debt securities by type of issuers.

2019	*Financial assets designated at fair value through other comprehensive income* HK$'000	*Financial assets designated at amortised cost* HK$'000	*Total* HK$'000
Aaa	34,701	-	34,701
Aa1 to Aa3	23,611	-	23,611
A1 to A3	12,700	-	12,700
Below A3 and above C	25,689	3,969	29,658
	96,701	3,969	100,670

3 Financial and operational risk management (continued)

3.1 Credit risk (continued)

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

2018	*Financial assets designated at fair value through other comprehensive income* HK$'000	*Financial assets designated at amortised cost* HK$'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

There are no overdue debt securities as at 31 December 2019 (2018: nil).

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 financial assets designated at fair value through other comprehensive income. 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.

As at 31 December 2019 and 2018, 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 on the earnings of the Company.

3 Financial and operational risk management (continued)

3.2 *Market risk (continued)*

(a) *Currency risk (continued)*

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.

	2019			
	HKD HK$'000	*USD* HK$'000	*Other* HK$'000	*Total* HK$'000
Assets				
Cash and short-term funds	30,320	72,564	8,403	111,287
Placements with banks and other financial institutions maturing between one and twelve months	-	121,623	10,294	131,917
Financial assets designated at amortised cost	-	3,969	-	3,969
Advances and other accounts	2,494	23,565	61	26,120
Financial assets designated at fair value through other comprehensive income	-	96,701	-	96,701
Fixed assets	18,071	-	-	18,071
Total assets	50,885	318,422	18,758	388,065
Liabilities				
Time deposits from customers	-	206,870	17,663	224,533
Lease liabilities	12,462	-	-	12,462
Other payables	6,806	224	3	7,033
Total liabilities	19,268	207,094	17,666	244,028
Net on-balance sheet position	31,617	111,328	1,092	144,037
Credit commitments	-	6,284	-	6,284

3 Financial and operational risk management (continued)

3.2 *Market risk (continued)*

(a) *Currency risk (continued)*

	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				
Time 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

(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 the 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 if unexpected movement arises. 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)

3.2 *Market risk (continued)*

(b) *Interest rate risk (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).

2019	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	111,287	-	-	-	-	-	111,287
Placements with banks and other financial institutions maturing between one and twelve months	-	131,917	-	-	-	-	131,917
Financial assets designated at amortised cost	3,969	-	-	-	-	-	3,969
Advances and other accounts	2,892	3,902	12,161	-	-	7,165	26,120
Financial assets designated at fair value through other comprehensive income	9,443	18,023	41,166	26,986	1,083	-	96,701
Fixed assets	-	-	-	-	-	18,071	18,071
Total assets	127,591	153,842	53,327	26,986	1,083	25,236	388,065
Liabilities							
Deposits from customers	34,643	177,181	12,709	-	-	-	224,533
Lease liabilities	474	909	4,130	6,949	-	-	12,462
Other payables	-	-	-	-	-	7,033	7,033
Total liabilities	35,117	178,090	16,839	6,949	-	7,033	244,028
Interest sensitivity gap	92,474	(24,248)	36,488	20,037	1,083		

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		

3 Financial and operational risk management (continued)

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 fulfill commitments to lend.

(a) Liquidity risk management process

The liquidity condition of the Company is monitored daily 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 the 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)

3.3 *Liquidity risk (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 the 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.

	2019							
	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	84,750	26,544	-	-	-	-	-	111,294
Placements with banks and other financial institutions maturing between one and twelve months	-	-	132,345	-	-	-	-	132,345
Financial assets designated at amortised cost	-	3,978	-	-	-	-	-	3,978
Advances and other accounts	-	3,591	4,055	12,550	1,899	-	4,152	26,247
Financial assets designated at fair value through other comprehensive income	-	9,492	18,207	42,857	28,101	1,433	-	100,090
Fixed assets	-	-	-	-	-	-	18,071	18,071
Total assets	84,750	43,605	154,607	55,407	30,000	1,433	22,223	392,025
Liabilities								
Time deposits from customers	-	34,655	177,496	12,757	-	-	-	224,908
Lease liabilities	-	474	949	4,269	7,044	-	-	12,736
Other payables	412	134	4,439	599	1,447	-	2	7,033
Total liabilities	412	35,263	182,884	17,625	8,491	-	2	244,677
Net liquidity gap	84,338	8,342	(28,277)	37,782	21,509	1,433	22,221	147,348

	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								
Time 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

3 Financial and operational risk management (continued)

3.3 Liquidity risk (continued)

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Company's off-balance sheet financial instruments as at 31 December 2019 that commit it to extend credit to customers and other facilities amounted to HK$6,283,204 (2018: HK$8,846,951) and mature within one 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 the balance sheet date, and their carrying value approximates fair value.

(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.

	Carrying value		*Fair value*	
	2019	*2018*	*2019*	*2018*
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets designated at amortised cost	3,969	19,285	3,896	19,223

3 Financial and operational risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

(a) Financial Instrument carried at other than fair value (continued)

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.

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

3 Financial and operational risk management (continued)

3.4 *Fair value of financial assets and liabilities (continued)*

(b) *Financial instruments measured at fair value (continued)*

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2019.

	2019			
	Level 1 HK$'000	*Level 2* HK$'000	*Level 3* HK$'000	*Total* HK$'000
Financial assets				
Financial assets designated at fair value through other comprehensive income				
- Debt securities	80,977	15,724	-	96,701
Total	80,977	15,724	-	96,701

	2018			
	Level 1 HK$'000	*Level 2* HK$'000	*Level 3* HK$'000	*Total* HK$'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

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 the 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 2019 and 2018, 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 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. Every employee must 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, assumption and estimation uncertainties

Information about assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following note.

i. Determining the lease term

As explained in note 2(o), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Company, the Company evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Company to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Company's operation. The lease term is reassessed when there is a significant event or significant change in circumstances that is within the Company's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

5 Interest income

	2019 HK$'000	*2018* HK$'000
Interest income on investments in securities	1,870	2,360
Interest income on placements with banks	6,413	5,074
Interest income from advances to customers	809	1,083
	9,092	8,517

6 Other operating income

	2019 HK$'000	*2018* HK$'000
Service fees and commission income	19,950	17,039
Foreign exchange gains from customer transactions	(863)	199
Net gain from dealing in securities	3,544	3,492
Net gain on redemption/disposal of financial assets designated at fair value through other comprehensive income	60	-
Dividend income	-	15,000
	22,691	35,730

7 Gain from disposal of subsidiary

	2019 HK$'000	*2018* HK$'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 dividends 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 the subsidiary, BPI Remittance Centre (HK) Limited, is HKD500,000, HKD19.1 million was recognised as gain from the disposal of subsidiary through Profit and Loss for the year 2018.

8 Operating expenses

	2019 HK$'000	*2018* (Note) HK$'000
Staff costs:		
- Wages and salaries	26,750	16,711
- Pension costs - defined contribution plans	931	453
- Other benefits and allowance	2,709	3,157
Rental of premises	2,230	4,044
Depreciation (Note 18)	6,379	279
Auditor's remuneration	973	938
Professional fees	67	42
Telecommunication and postage	1,798	1,149
Other operating expenses	8,986	6,259
	50,823	33,032

Staff costs include directors' emoluments (Note 9).

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

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:

	2019 HK$'000	*2018* HK$'000
Salaries	3,904	2,217
Employer's contribution to a retirement scheme	32	18
	3,936	2,235

10 Income tax expense

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

No provision for Hong Kong Profits Tax has been made for the current and prior financial periods as the Company sustained a loss for taxation purposes in both periods.

For the year ended 31 December 2019, the provision for Hong Kong Profits Tax was calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

The Company has not recognised its tax loss of approximately HK$30,145,556 (2018: approximately HK$7,744,072) 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.

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

	2019 HK$'000	*2018* HK$'000
(Loss)/ profit before taxation	(21,323)	26,984
Calculated at a taxation rate of 16.5% (2018: 16.5%)	(3,518)	4,452
Tax effect of non-taxable income	(1,214)	(5,704)
Tax effect of non-deductible expenses	1,092	46
Tax loss not recognised	3,640	1,206
	-	-

10 Income tax expense (continued)

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

	2019			2018		
	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	619	-	619	(290)	-	(290)
Other comprehensive income/(loss)	619	-	619	(290)	-	(290)
Deferred tax asset/(liabilities)		-			-	

11 Finance Costs

	2019 HK$'000	*2018* HK$'000
Interest expenses incurred from lease liabilities	238	-

12 Cash and short-term funds

	2019 HK$'000	*2018* HK$'000
Cash and balances with banks and other financial institutions	84,750	56,904
Placements with banks and other financial institutions maturing within one month	26,537	85,906
Credit impairment for cash and short-term funds	-	(216)
	111,287	142,594

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

	2019 HK$'000	*2018* HK$'000
Placements with banks and other financial institutions		
- maturing between 1 and 3 months	131,917	173,388
- maturing between 3 and 12 months	-	-
Credit impairment for placements with banks and other financial institutions maturing between one and twelve months	-	(225)
	131,917	173,163

14 Financial assets designated at amortised cost

	2019 HK$'000	2018 HK$'000
Financial assets designated at amortised cost		
- Listed outside Hong Kong and issued by banks and other financial institutions	3,969	4,017
- Listed outside Hong Kong and issued by central government	-	15,285
Credit impairment for financial assets designated at amortised cost	-	(17)
	3,969	19,285
Fair value of listed securities	3,896	19,223
	3,896	19,223

15 Advances and other accounts

	2019 HK$'000	2018 HK$'000
Advances to customers	18,956	43,407
Other accounts	7,164	7,867
	26,120	51,274

The advances to customers of HKD 18,955,812 (2018: HKD 43,407,507) were fully secured. None of the advances were overdue as at 31 December 2019 and 31 December 2018.

16 Financial assets designated at fair value through other comprehensive income

	2019 HK$'000	2018 HK$'000
Financial assets designated at fair value through other comprehensive income		
- Listed outside Hong Kong and issued by banks and other financial institutions	36,311	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	1,940	1,850
- Listed outside Hong Kong and issued by central government	58,450	14,544
	96,701	69,911

17 Repossessed assets

At 31 December 2019 and 31 December 2018, the Company did not hold any repossessed assets.

18 Fixed assets

	Leasehold improvements HK$'000	*Furniture, fixtures and equipment* HK$'000	*Right of use assets* HK$'000	*Total* HK$'000
At 1 January 2018				
Cost	2,816	1,571	-	4,387
Accumulated depreciation	(2,816)	(1,401)	-	(4,217)
Net book value	-	170	-	170
Year ended 31 December 2018				
Opening net book value	-	170	-	170
Additions	5	328	-	333
Depreciation charge	(3)	(276)	-	(279)
Closing net book value	2	222	-	224
At 1 January 2019				
Impact on initial application of HKFRS 16 (Note)	-	-	212	212
Cost	2,821	1,899	-	4,720
Accumulated depreciation	(2,819)	(1,677)	-	(4,496)
Net book value	2	222	212	436
Year ended 31 December 2019				
Opening net book value	2	222	212	436
Additions	5,361	1,855	16,880	24,096
Disposal	-	(323)	(212)	(535)
Depreciation charge	(1,193)	(654)	(4,532)	(6,379)
Written back on disposal	-	322	131	453
Closing net book value	4,170	1,422	12,479	18,071
At 31 December 2019				
Cost	5,361	3,431	16,880	25,672
Accumulated depreciation	(1,191)	(2,009)	(4,401)	(7,601)
Net book value	4,170	1,422	12,479	18,071

18 Fixed assets (continued)

Note: The Company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases, which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

19 Lease liabilities

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

	31 December 2019		*1 January 2019 (Note)*		*31 December 2018 (Note)*	
	Present value of the minimum lease payments HK$'000	*Total minimum lease payments* HK$'000	*Present value of the minimum lease payments* HK$'000	*Total minimum lease payments* HK$'000	*Present value of the minimum lease payments* HK$'000	*Total minimum lease payments* HK$'000
Within 1 year	5,513	5,692	196	198	-	-
After 1 year but within 2 years	5,604	5,691	16	17	-	-
After 2 years but within 5 years	1,345	1,353	-	-	-	-
	6,949	7,044	16	17	-	-
	12,462	12,736	212	215		
Less: total future interest expenses		(274)		(2)	-	-
Present value of lease liabilities		12,462		213	-	-

Note: The Company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases, which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

20 Share capital

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	*Share capital* HK$'000
At 1 January 2018, 31 December 2018 and 31 December 2019	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 10 of the financial statements.

As at 31 December 2019, an amount of HK$1,691,649 (2018: 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 Commitments

At 31 December 2019, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2019 HK$'000	*2018* HK$'000
Within 1 year	-	4,449
After 1 year but within 5 years	-	122
After 5 years	-	-
	-	4,571

The Company is the lessee in respect of office space and office equipment held under leases, which were previously classified as operating leases under HKAS 17. The Company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Company adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)), if any. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(o), and the details regarding the Company's future lease payments are disclosed in note 19.

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:

	2019 HK$'000	*2018* HK$'000
Commitment		
Loan commitments with an original maturity of under 1 year or which are unconditionally cancellable without prior notice	3,768	3,639
Loan commitments with an original maturity of under 1 year	2,516	5,208
	6,284	8,847

24 Loans to officers

As at 31 December 2019, 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:

	2019 HK$'000	*2018* HK$'000
Transfer of subsidiary to ultimate holding company	-	500
System services charge from ultimate holding company	636	624
	636	1,124

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.

(b) Year-end balances with related parties:

	2019 HK$'000	*2018* HK$'000
Bank balance held in ultimate holding company	373	394

25 Related party transactions (continued)

(b) Year-end balances with related parties: (continued)

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

(c) Key management compensation:

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

	2019 HK$'000	*2018* HK$'000
Salaries and other short-term employee benefits	16,276	8,348

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

26 Note to the cash flow statement

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

	2019 HK$'000	*2018* HK$'000
(Loss)/profit before taxation	(21,323)	26,984
Adjustments for:		
Net interest income	(6,415)	(5,818)
Depreciation of fixed assets	6,379	279
Credit impairment (released)/charged	(632)	632
Dividend income	-	(15,000)
Net gain from disposal of subsidiary	-	(19,100)
Finance cost	238	-
Changes in working capital:		
Decrease/(increase) in placements with banks and other financial institutions with original maturity over three months	42,545	(31,411)
Decrease/(increase) in advances and other accounts	32,377	(21,535)
(Decrease)/increase in time deposits from customers	(66,160)	25,624
Increase/(decrease) in other payables	1,892	(5,298)
Cash used in operating activities	(11,099)	(44,643)

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 2019

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

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

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

29 Approval of financial statements

The financial statements were approved by the board of directors on 2 1 APR 2020 .

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

	2019	*2018*
Average liquidity maintenance ratio	383.23%	379.40%

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").

<u>Liquidity risk management process</u>

The liquidity condition of the Company is monitored daily 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$'000	*USD* HK$'000	*GBP* HK$'000	*AUD* HK$'000	*PHP* HK$'000	*Total* HK$'000
Equivalent in Hong Kong dollars 2019						
Spot assets	280	318,421	456	18,009	14	337,180
Spot liabilities	-	(207,094)	-	(17,663)	(3)	(224,760)
Net long position	280	111,327	456	346	11	112,420
Net structural position		-				-
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		-				-

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.

2019	*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)

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	-		

4 Capital structure and adequacy

(a) Risk-weighted amount for credit risk

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

	2019 HK$'000	*2018* HK$'000
Sovereign exposures	27,218	16,072
Public Sector Entity exposures	1,940	1,850
Bank exposures	56,696	77,959
Other exposures	42,292	48,856
Total risk-weighted amount for on-balance sheet exposures	128,146	144,737
Total risk-weighted amount for off-balance sheet exposures	503	1,042
Total risk-weighted amount for credit risk	128,649	145,779

(b) Risk-weighted amount for market risk

The Company is exempted from the calculation of market risk in 2019 and 2018.

(c) Risk-weighted amount for operational risk

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

	2019 HK$'000	*2018* HK$'000
Risk-weighted amount for operational risk	71,463	53,463

(d) Risk-weighted amount for sovereign concentration risk

The Company has no sovereign concentration risk in 2019.

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

	2019 HK$'000	2018 HK$'000
Loans for use in Hong Kong		
- Individuals - others	-	-
Loans for use outside Hong Kong	18,956	43,407
	18,956	43,407

Gross advances to customers by geographical area

	2019 HK$'000	2018 HK$'000
Residential status of customers:		
The Philippines	18,956	43,407

The above gross advances only include gross advances to customers. The related collective provisions maintained in regulatory reserve sources 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.

2019			*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	18,000	-	-	-	-	18,000
of which United States	8,000	35,000	-	-	-	43,000
of which Japan	8,000	-	-	-	-	8,000
2. Offshore Centers						
of which Singapore	23,000	-	-	-	-	23,000
of which Hong Kong	186,000	-	1,000	-	-	187,000
3. Developing Asia and Pacific						
of which Philippines	4,000	1,000	-	25,000	-	30,000
of which Indonesia	-	23,000	-	-	-	23,000
of which South Korea	-	-	6,000	-	-	6,000

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 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

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

2019	*Retail and Corporate business* HK$'000	*Treasury* HK$'000	*Others* HK$'000	*Total* HK$'000
Interest income - external	7,223	1,869	-	9,092
Interest expense - external	(2,677)	-	-	(2,677)
Net interest income	4,546	1,869	-	6,415
Net fees and commission income	19,950	-	-	19,950
Other operating income	2,741	-	-	2,741
Total operating income	27,237	1,869	-	29,106
Credit impairment	632	-	-	632
Operating expenses	(50,823)	-	-	(50,823)
Finance costs	(238)	-	-	(238)
Loss before taxation	(23,192)	1,869	-	(21,323)
Depreciation and amortisation charge			(6,379)	(6,379)
Segment assets				
Total assets	262,223	100,670	25,172	388,065
Segment liabilities				
Total liabilities	224,533	-	19,495	244,028

5 Segmental information (continued)

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

6 Overdue and rescheduled loans

There were no overdue and rescheduled loans and repossessed assets as at 31 December 2019 (2018: Nil).

7 Interest rate risk

(i) Interest Rate Risk in Banking Book

The Company defines Interest Rate Risk of Banking Book ("IRRBB") as the current or prospective risk to its capital and earnings arising from adverse movements in interest rates that affect the Company's banking book positions. This in turn changes the underlying value of the Company's assets, liabilities and off-balance sheet items, and hence its economic value.

The Company adopts the standardized calculation methodologies in measuring interest rate risk exposure on the Economic Values of shareholders' Equity ("EVE") and Net Interest Income ("NII"), based on Hong Kong Monetary Authority Supervisory Policy Manual IR-1 Interest Rate Risk in Banking Book.

This table provides information on the change in economic value of equity ("EVE") and the change in net interest income ("NII") over next 12 months under each of the prescribed interest rate shock scenario in respect of the Company's interest rate exposures arising from banking book positions for the current annual reporting date at 31 December 2019.

		(a)	(b)	(c)	(d)
(in HKD million)		***ΔEVE***		***ΔNII***	
	Period	***31 Dec 2019***	***31 Dec 2018***	***31 Dec 2019***	***31 Dec 2018***
1	Parallel up	2	N/A		N/A
2	Parallel down	0	N/A	-	N/A
3	Steepener	0	N/A		
4	Flattener	1	N/A		
5	Short rate up	3	N/A		
6	Short rate down	0	N/A		
7	**Maximum**	3	N/A	-	N/A
	Period	**31 Dec 2019**		**31 Dec 2018**	
8	**Tier 1 capital**	143		N/A	

Note: This is the first annual disclosure under new requirements of HKMA, so the comparative figures with previous year are not available.

8 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 the 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 the 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.

8 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 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 that 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:

- Financial reporting, systems of internal controls, risk management and governance process of IFL;
- Internal auditors and external auditors; and
- Quality of compliance with IFL's corporate governance policies and applicable laws, rules, and regulations.

8 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;

8 Corporate Governance (continued)

Remuneration Committee

The Committee provides 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

Asset and Liability Committee (the "Committee", "ALCO"), a senior management level committee tasked to look after the soundness of the Company's financial position. The function includes overseeing the Company asset and liabilities management such as interest rate and gap risk, liquidity and funding risk, market risk, and in particular to ensure that the Company has adequate funds to meet its obligations as they may fall due and to generate appropriate returns on its assets.

The purpose and scope of the Committee includes: 1) Managing and implementing the Company's balance sheet strategies including amongst others, liquidity, capital, liabilities, loans and investment portfolio targets, in order to achieve the Company's approved financial budget within given risk parameters; 2) Planning, directing and controlling the levels, mix, volume and spreads on the Company's various balance sheet and off balance sheet accounts; 3) Overseeing the activities of the Company's Treasury department and ensuring that all relevant activities are performed within risk limits; 4) Reviewing market developments, the Company's financial performance, risk and compliance issues and other matters which may affect the assets and liabilities management decision; 5) Propose internal risk control limits like trigger on LMR, Early Warning Indicators etc.; 6) Reviewing parameters for monthly Liquidity Stress Test and table the results for approval. The parameters are to be reviewed periodically; and 7) Assess the adequacy of liquid assets held by the Company, in terms of quality and quantity, in relation to both expected (cash flow forecast) and unexpected events.

The Committee generally meet on a monthly basis, with additional meetings convened by any member of the Committee as the need arises. Meetings of the Committee are open to all Board Members and guests invited by the Committee. The Committee may request any officer or employee of the Company, outside counsels, external auditors, or consultants to attend a meeting or to meet with any members of the Committee.

8 Corporate Governance (continued)

The members consist of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Head of Treasury and Head of Risk Management.

(c) Risk Management Committee

The Management Level Risk Management Committee ("RMC") is established by the Board of Directors (the "Board") of the Company and shall have overall responsibility at the management level for establishing a strategic approach to risk management and the coordination of risk management activities on a day-to-day basis.

The authority of the Committee is to: 1) Ensure the rigorous implementation of the Board-approved framework for risk and compliance management; 2) Commission root cause analyses into significant policy breaches or control breakdowns; 3) Investigate any matter of concern of a regulatory nature; 4) Report the findings of its reviews to the necessary level of management in the Company, including the Audit Committee or the Board, if necessary; 5) Subject to any specific direction or mandate of the Board, the Committee is authorized to act on behalf of the Board with respect to any matter necessary or appropriate to the accomplishment of the purpose and responsibilities set forth in the Term of Reference; and 6) In discharging its role, the Committee may inquire into any matter it considers appropriate to carry out its purpose and responsibilities.

The Scope of the Committee is responsible for the oversight of and advice to the Board Level Risk Management Committee and to the Board on high-level risk related matters and risk governance, with the framework of the Company's policies, its terms of reference and such other directives as the Board may determine from time to time, including:

a) Review, advise and recommend for RMC and the Board's approval the overall risk tolerance, risk appetite and risk management strategy of the Company;

b) Be responsible for ensuring the effective operation of the risk management framework in relation to all major risk exposures including but not limited to credit risk, market risk, operational risk, interest rate risk, liquidity risk, legal, regulatory and compliance risk, strategic risk, reputational risk, technology risk (including information security risk, cyber security risk and e-banking risk) and any other material risks to which the Company may be exposed to from time to time;

c) Oversee and analyze the risk exposures, adequacy and effectiveness of the overall risk management framework in identifying, measuring, monitoring and controlling risk of the Company;

d) Formulate a strategy in relation to the infrastructure, resources and systems for risk management;

e) Perform stress test and sensitivity analysis for the exposure portfolio

f) Monitor and review both Parent Bank and Regulatory required limits

g) Oversee the implementation of a sound Business Continuity Plan (BCP) and its annual exercise.

8 Corporate Governance (continued)

The Committee generally meet on a monthly basis, with additional meetings convened by any member of the Committee as the need arises. Meetings of the Committee are open to all Board Members and guests invited by the Committee. The Committee may request any officer or employee of the Company, outside counsels, external auditors, or consultants to attend a meeting or to meet with any members of the Committee.

The members consist of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Head of Treasury, Head of Risk Management, Head of Legal and Head of Compliance.

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

The Anti-Money Laundering and Counter Financing of Terrorism Committee (AML/CFT Committee) are responsible for the consistent and effective implementation of AML/CFT guidelines and are responsible for 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, the most senior member of the Compliance Department, the Head of Risk, and the Head of Legal. The committee meets every month to oversee, manage, evaluate, and approve the standards of the suspicious transaction to ensure the appropriate actions are observed.

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

8 Corporate Governance (continued)

- 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 the 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$16,276,516 for 2019 (2018: HK$8,348,019).

  There were no deferred remunerations for 2019.