SCOTIABANK (HONG KONG) LIMITED
a restricted licence bank incorporated in Hong Kong

Financial Disclosure Statement
For the year ended October 31, 2019

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

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
Interest income	3(a)	$ 390,979,275	$ 335,320,157
Interest expense	3(b)	(225,187,952)	(172,871,165)
Net interest income		$ 165,791,323	$ 162,448,992
Fee and commission income	4	16,438,435	22,383,707
Other operating loss		(640,137)	(569,875)
Operating income		$ 181,589,621	$ 184,262,824
Operating expenses	5	(44,284,747)	(47,926,486)
Operating profit before impairment		$ 137,304,874	$ 136,336,338
Impairment release	7	761,839	1,215,222
Profit before taxation		$ 138,066,713	$ 137,551,560
Income tax	8(a)	(22,332,523)	(22,202,882)
Profit for the year		$ 115,734,190	$ 115,348,678

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

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
Profit for the year		$ 115,734,190	$ 115,348,678
Other comprehensive income (may be reclassified to profit or loss)			
Investment securities measured at fair value through other comprehensive income:			
- fair value changes during the year on debt securities		$ (359,683)	$ 435,046
- deferred taxes	14(b)	60,205	(71,772)
Other comprehensive income for the year, net of tax		$ (299,478)	$ 363,274
Total comprehensive income for the year		$ 115,434,712	$ 115,711,952
Total comprehensive income for the year attributable to shareholders		$ 115,434,712	$ 115,711,952

Statement of financial position at 31 October 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
Assets			
Cash and cash equivalents	11	$ 1,000,736,596	$ 2,352,504,800
Investment securities measured at fair value through other comprehensive income	10	1,727,347,312	2,023,460,451
Loans and advances	9(a)	13,046,228,476	11,992,168,926
Trade bills	9(a)	333,459,521	84,572,375
Current tax assets	14(a)	-	336,317
Deferred tax assets	14(b)	311,485	376,983
Other assets	12	29,321,000	26,602,113
TOTAL ASSETS		$ 16,137,404,390	$ 16,480,021,965
Liabilities and Equity			
Liabilities			
Deposits and balances from banks		$ 10,666,754,176	$ 11,027,491,850
Current tax liabilities	14(a)	21,870,503	-
Other liabilities	13	24,232,342	28,417,458
Total liabilities		$ 10,712,857,021	$ 11,055,909,308
Equity			
Share capital	15(a)	$ 2,796,181,175	$ 2,796,181,175
Reserves	15(b)	2,628,366,194	2,627,931,482
Total equity		$ 5,424,547,369	$ 5,424,112,657
TOTAL LIABILITIES AND EQUITY		$ 16,137,404,390	$ 16,480,021,965

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

(Expressed in Hong Kong dollars)

	Share capital	*Fair value reserve on FVTOCI securities*	*Retained profits*	*Total equity*
At 1 November 2017	$ 2,796,181,175	$ (204,384)	$ 2,628,423,914	$ 5,424,400,705
Dividend paid in respect of the previous year	-	-	(116,000,000)	(116,000,000)
Total comprehensive income for the year	-	363,274	115,348,678	115,711,952
At 31 October 2018 and 1 November 2018	$ 2,796,181,175	$ 158,890	$ 2,627,772,592	$ 5,424,112,657
Dividend paid in respect of the previous year	-	-	(115,000,000)	(115,000,000)
Total comprehensive income for the year	-	(299,478)	115,734,190	115,434,712
At 31 October 2019	$ 2,796,181,175	$ (140,588)	$ 2,628,506,782	$ 5,424,547,369

Cash flow statement
for the year ended 31 October 2019
(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
Operating activities			
Profit before taxation		$ 138,066,713	$ 137,551,560
Adjustment for:			
Impairment release	7	(761,839)	(1,215,222)
		$ 137,304,874	$ 136,336,338
Increase in operating assets			
Loans and advances		$ (1,053,534,431)	$ (482,263,252)
Trade bills		(249,284,759)	(84,585,031)
Other assets		(2,718,887)	(3,149,579)
		$ (1,305,538,077)	$ (569,997,862)
(Decrease)/increase in operating liabilities			
Deposits and balances of banks		$ (360,737,674)	$ 1,744,126,644
Other liabilities		(3,729,535)	4,897,068
		$ (364,467,209)	$ 1,749,023,712
Cash (used in)/generated from operations		$ (1,532,700,412)	$ 1,315,362,188
Hong Kong Profits Tax paid		-	(19,430,970)
Net cash (used in)/generated from operating activities		$ (1,532,700,412)	$ 1,295,931,218

Cash flow statement
for the year ended 31 October 2019 (continued)
(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
Investing activities			
Payment for purchase of FVTOCI		$ (5,319,013,677)	$ (7,114,400,000)
Receipts from matured FVTOCI		5,605,914,464	6,689,208,572
Interest received		8,853,586	5,074,878
Net cash generated from/(used in) investing activities		$ 295,754,373	$ (420,116,550)
Financing activity			
Dividend paid		$ (115,000,000)	$ (116,000,000)
Net cash used in financing activity		$ (115,000,000)	$ (116,000,000)
Net (decrease)/increase in cash and cash equivalents		$ (1,351,946,039)	$ 759,814,668
Cash and cash equivalents at the beginning of the year		2,352,784,074	1,592,969,406
Cash and cash equivalents at the end of the year	11	$ 1,000,838,035	$ 2,352,784,074
Cash flows from operating activities include			
Interest received		$ 386,785,569	$ 332,496,317
Interest paid		(224,306,304)	(168,002,531)
		$ 162,479,265	$ 164,493,786
Analysis of cash and cash equivalents			
Cash and cash equivalents with original maturity within three months		$ 1,000,838,035	$ 2,352,784,074

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively include 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. A summary of the significant accounting policies adopted by the Company is set out 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. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 22).

(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 for the financial instruments classified as fair value through other comprehensive income (FVTOCI) (see note 1(c)) which are stated at their fair value.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 21.

1 Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition

The Company classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: amortised cost, financial instruments carried at fair value through other comprehensive income (FVTOCI) and other financial liabilities. The Company does not classify or designate any financial instruments as fair value through profit or loss.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability.

The Company initially recognises loans, deposits, and debt securities issued on the date at which they are originated or purchased. Regular-way purchases and sales of financial assets, other than financial assets carried at FVTOCI, are recognised on the settlement date. All other financial assets and liabilities, are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

(ii) Categorisation

Amortised cost

Loans and advances are measured at amortised cost if they are held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from loans and advances are calculated using the effective interest method.

Fair value through other comprehensive income (FVTOCI)

Debt securities are measured at FVTOCI if the contractual cash flows only comprise of payments of principal and interest and the debt securities are held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the debt securities are derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

Other financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method.

1 Significant accounting policies (continued)

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

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

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

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

(v) Offsetting

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

(d) Credit losses from financial instruments and other assets

The Company recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, loans and advances, trade bills and other receivables);
- debt securities measured at FVTOCI;
- off balance sheet loan commitments; and
- financial guarantee contracts.

Financial assets measured at fair value are not subject to the ECL assessment.

1 Significant accounting policies (continued)

The Company uses the Group's ECL model and allowance for credit losses calculations are outputs of model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 - Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 - When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 - Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

- PD - The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

- EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

1 Significant accounting policies (continued)

Assessment of significant increase in credit risk (SIR)

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SIR include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

The Company uses a risk rating scale (IG codes) for its exposures. All exposures have an IG code assigned that reflects the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

Expected life

When measuring expected credit loss, the Company considers the maximum contractual period over which the Company is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Presentation of allowance for credit losses in the Statement of Financial Position

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;

- Debt securities measured at fair value through other comprehensive income: no allowance is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income;

- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

1 Significant accounting policies (continued)

Definition of default

The Company considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Company considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

Write-off policy

The Company writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the statement of profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank and on hand and demand deposits with banks and other financial institutions.

1 Significant accounting policies (continued)

(f) Employee benefits

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

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Schemes Ordinance, are recognised as an expense in the statement of profit and loss as incurred.

(g) 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 the statement of profit or loss except to the extent that they relate to items recognised directly 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 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 difference between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

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.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled.

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

1 Significant accounting policies (continued)

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably. Revenue is recognised in the statement of profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments, other than those classified as held at fair value through profit and loss, is recognised in the statement of profit or loss on an accrual basis using the effective interest method.

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

(ii) Fee and commission income

Fee and commission income is recognised when services are rendered.

(j) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates prevailing at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates prevailing at the dates the fair value was determined.

1 Significant accounting policies (continued)

(k) Related parties

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

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

(2) has significant influence over the Company; or

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

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

(1) 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).

(2) 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).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

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

(7) A person identified in (i)(1) 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).

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

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

2 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Company. Except for HKFRS 9, *Financial Instruments* which the Company early adopted for the year ended 31 October 2018, the following developments are relevant to the Company's financial statements:

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

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

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

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 22).

3 Interest income and interest expense

(a) Interest income

		2019		*2018*
Investment securities at FVTOCI	$	8,853,586	$	5,074,878
Loans and advances		379,321,683		327,963,352
Deposits from banks		2,804,006		2,281,927
Interest income on financial assets that are not at fair value through profit or loss as included in the statement of profit or loss	$	390,979,275	$	335,320,157
Total interest income on all financial assets	$	390,979,275	$	335,320,157

All interest income is calculated using the effective interest rate method.

3 Interest income and interest expense (continued)

(b) Interest expense

		2019		*2018*
Deposits from banks	$	222,742,841	$	170,769,589
Investment securities at FVTOCI		2,445,111		2,101,576
Interest expense on financial liabilities that are not at fair value through profit or loss as included in the statement of profit or loss	$	225,187,952	$	172,871,165
Total interest expense on all financial liabilities	$	225,187,952	$	172,871,165

4 Fee and commission income

		2019		*2018*
Loan fees	$	5,738,964	$	8,606,750
Trade finance fees		610,250		598,766
Administration and other service fee income earned from the ultimate holding Company and fellow subsidiary Company		10,086,771		13,173,291
Others		2,450		4,900
	$	16,438,435	$	22,383,707

The above are fee and commission income of $16,438,435 (2018: $22,383,707) relating to financial assets and liabilities not at fair value through profit or loss for the year ended 31 October 2019.

5 Operating expenses

(a) Staff costs

		2019		*2018*
Salaries and wages	$	14,090,794	$	13,289,070
Contributions to defined contribution retirement plan		1,144,641		1,113,536
Other allowances and benefits in kind		725,320		271,596
	$	15,960,755	$	14,674,202

5 Operating expenses (continued)

(b) ***Other operating expenses***		*2019*		*2018*
Administration and support service fees paid to the ultimate holding Company and fellow subsidiary companies	$	14,134,812	$	15,347,974
Other service fees paid to the ultimate holding Company		7,963,260		12,375,467
Premises and equipment expenses				
- Rental of premises		2,760,630		2,639,945
- Others		507,512		488,853
Auditor's remuneration		722,438		748,733
Other operating expenses		2,235,340		1,651,312
	$	28,323,992	$	33,252,284
	$	44,284,747	$	47,926,486

6 Directors' remuneration

Directors' remuneration 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 is as follows:

		2019		*2018*
Directors' fees	$	400,000	$	270,244
Salaries, allowances and benefits in kind		1,838,734		1,824,158
Discretionary bonuses		335,700		376,575
Retirement scheme contributions		188,400		188,400
	$	2,762,834	$	2,659,377

Certain directors received shares of the ultimate holding Company during the year. These particular directors spend most of their time on matters relating to the business of the ultimate holding Company and its other banking subsidiaries. Consequently, no remuneration or compensation is considered to have been paid to these directors in any form relating to their duties as directors of the Company.

7 Impairment release

		2019		*2018*
Impairment allowances released	$	761,839	$	1,215,222

7 Impairment release (continued)

Movements in impairment allowances

		2019		2018
At the beginning of the year	$	2,474,975	$	20,994,380
HKFRS 9 Opening Adjustment		-		(17,304,183)
Impairment allowance released to statement of profit or loss		(761,839)		(1,215,222)
At the end of the year	$	1,713,136	$	2,474,975
Stage 1 expected credit loss provision on:				
Cash and cash equivalents (note 11)		101,439		279,274
Loans and advances to customers (note 9(a))		1,117,145		1,642,264
Trade bills (note 9(a))		410,269		12,656
Investment securities measured at FVTOCI		2,786		3,703
Contingent and loan commitments		81,497		537,078
	$	1,713,136	$	2,474,975

8 Income tax in the statement of profit or loss and other comprehensive income

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

		2019		2018
Current tax - Hong Kong Profits Tax				
Provision for the year	$	22,206,820	$	22,002,370
Deferred tax				
Origination and reversal of temporary differences (note 14(b))	$	125,703	$	200,512
	$	22,332,523	$	22,202,882

The provision for Hong Kong Profits Tax for 2019 and 2018 is calculated at 8.25% on estimated assessable profits up to $2,000,000 and 16.5% on the remaining estimated assessable profits for the year.

8 Income tax in the statement of profit or loss and other comprehensive income (continued)

(b) Reconciliation between tax expense charged to profit or loss and accounting profit at applicable tax rates

	2019	*2018*
Profit before taxation	$ 138,066,713	$ 137,551,560
Notional tax on profit before tax, calculated as first $2,000,000 at 8.25% and remainder at 16.5%	$ 22,616,008	$ 22,531,689
Tax effect of non-deductible expenses	102,374	106,369
Tax effect of non-taxable income	(385,859)	(435,176)
Actual tax expense	$ 22,332,523	$ 22,202,882

9 Loans and advances and trade bills

(a) Loans and advances and trade bills less impairment

	2019	*2018*
Gross loans and advances to customers	$ 13,047,345,621	$ 11,993,811,190
Less: Stage 1 expected credit loss provision (note 7)	(1,117,145)	(1,642,264)
	$ 13,046,228,476	$ 11,992,168,926
Trade bills	$ 333,869,790	$ 84,585,031
Less: Stage 1 expected credit loss provision (note 7)	(410,269)	(12,656)
	$ 333,459,521	$ 84,572,375

No loans and advances to customers and trade bills were impaired, overdue, or rescheduled as at 31 October 2019 (2018: Nil). No repossessed asset was held as at 31 October 2019 (2018: Nil).

9 Loans and advances and trade bills (continued)

(b) Loans and advances to customers analysed by industry sector

The following economic sector analysis is based on the categories and definitions used by the Hong Kong Monetary Authority ("HKMA").

	2019	*2018*
Industrial, commercial and financial		
- Property investment	$ 1,238,128,838	$ 275,337,401
- Manufacturing	1,558,792,723	2,106,464,786
- Transport and transport equipment	427,065,747	465,239,396
- Electricity, gas and telecommunications	2,258,050,592	1,482,656,949
- Others	2,355,330,966	2,553,008,660
Gross loans and advances for use in Hong Kong	$ 7,837,368,866	$ 6,882,707,192
Gross loans and advances for use outside Hong Kong	5,209,976,755	5,111,103,998
Gross loans and advances to customers	$ 13,047,345,621	$ 11,993,811,190

10 Investment securities measured at fair value through other comprehensive income

	2019	*2018*
Debt securities	$ 1,727,347,312	$ 2,023,460,451
Issued by:		
Sovereigns	$ 1,727,347,312	$ 2,023,460,451
Analysed by place of listing:		
Unlisted	$ 1,727,347,312	$ 2,023,460,451

11 Cash and cash equivalents

	2019	*2018*
Cash and cash equivalents	$ 1,000,838,035	$ 2,352,784,074
Cash and cash equivalents in the cash flow statement	$ 1,000,838,035	$ 2,352,784,074
Stage 1 expected credit loss provision (note 7)	(101,439)	(279,274)
Cash and cash equivalents in the statement of financial position	$ 1,000,736,596	$ 2,352,504,800

12 Other assets

	2019	2018
Interest receivable	$ 28,098,627	$ 23,904,920
Others	1,222,373	2,697,193
	$ 29,321,000	$ 26,602,113

The above balances do not contain amounts overdue for more than 12 months.

13 Other liabilities

	2019	2018
Interest payable	$ 16,815,682	$ 15,934,034
Others	7,416,660	12,483,424
	$ 24,232,342	$ 28,417,458

No customer deposits as at 31 October 2019 (2018: Nil).

14 Income tax in the statement of financial position

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

	2019	2018
Provision for Hong Kong Profits Tax for the year	$ 22,206,820	$ 22,002,370
Current year payment	-	(19,430,970)
Balance of Profits Tax provision relating to prior years	(336,317)	(2,907,717)
	$ 21,870,503	$ (336,317)

14 Income tax in the statement of financial position (continued)

(b) Deferred tax assets recognised:

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

Deferred tax arising from:	*Impairment allowance on loans and advances*	*Revaluation of FVTOCI*	*Total*
At 1 November 2018	$ 408,371	$ (31,388)	$ 376,983
Charged to statement of profit or loss (note 8(a))	(125,703)	-	(125,703)
Charged to FVTOCI fair value reserve	-	60,205	60,205
At 31 October 2019	$ 282,668	$ 28,817	$ 311,485
At 1 November 2017	$ 608,883	$ 40,384	$ 649,267
Charged to statement of profit or loss (note 8(a))	(200,512)	-	(200,512)
Charged to FVTOCI fair value reserve	-	(71,772)	(71,772)
At 31 October 2018	$ 408,371	$ (31,388)	$ 376,983

15 Share capital and reserves

(a) Ordinary shares, issued and fully paid:

	2019		*2018*	
	No. of shares	*Amount*	*No. of shares*	*Amount*
At 1 November and 31 October	317,430	$2,796,181,175	317,430	$2,796,181,175

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.

15 Share capital and reserves (continued)

(b) Nature and purpose of reserve

FVTOCI fair value reserve

The FVTOCI fair value reserve comprises the cumulative net change in the fair value of FVTOCI securities until the securities are derecognised, and is accounted for in accordance with the accounting policies in notes 1(c) and (d).

16 Off balance sheet items contingent liabilities and commitments

Contingent liabilities and commitments to extend credit

Contract amounts:	*2019*	*2018*
Direct credit substitutes	$ 158,711,400	$ 713,792,600
Trade-related contingencies	16,745,703	107,382,027
Transaction-related contingencies	71,385,000	63,385,000
Other commitments		
- with an original maturity of more than one year	774,888,951	2,805,000,000
- which are unconditionally cancellable	2,404,367,297	2,247,194,973
	$ 3,426,098,351	$ 5,936,754,600
Credit risk-weighted amounts	$ 484,197,517	$ 1,918,461,505

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows. The risk weights used in the computation of credit risk-weighted amounts range from 20% to 100%.

17 Financial risk management

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

- credit risk: loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligation to the Company.

- market risk: loss of value in the Company's portfolios resulting from changes in interest rates, credit spreads or foreign currency rates.

- liquidity risk: risk that the Company is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include payments due under derivative contracts, and lending and investment commitments.

- operational risk: risk of loss, whether direct or indirect, to which the Company is exposed due to external events, human error, or the inadequacy or failure of processes, procedures or controls.

The Company's risk management approach reflects six key principles:

- Board oversight - Risk strategies, policies and limits are subject to board of directors' (the "Board") approval. The Board directly receives regular updates on the risks of the Company.

- Decision-making - Decision-making processes are designed to ensure alignment of business objectives, risk tolerance and resources.

- Accountability - Continuous review of risk profiles of individual customers and portfolios.

- Independent review - All significant credit, market and liquidity risk-taking activities are subject to independent oversight from senior managements.

- Diversification - Strategies, policies and limits, are designed to ensure that risk is well diversified.

- Audit review - Internal Audit reports independently to the Board on the effectiveness of the risk management policies and on the extent to which internal controls are in place and being followed.

The process of risk management is integrated in the Company's overall risk management structure to the fullest extent possible using a framework common to the Company's other activities and overall guidelines and policies of the ultimate holding bank, BNS. The Company has knowledgeable individuals responsible for risk monitoring and control functions that are independent of the line unit that conducts the activity and creates the risk exposures.

17 Financial risk management (continued)

(a) Credit risk

The ability of counterparties to honour their obligations to the Company is carefully monitored for all activities through policies, guidelines and limits that are approved by the Board. Credit limits across all product lines are established for the Company's counterparties. Standard credit processes have been documented and these processes include solicitation of advice and counsel from the Global Risk Management group of BNS on all large exposures.

As part of the BNS group, the Company's management is closely involved in controlling the Company's credit risk which is in line with BNS group's overall conservative credit culture. The Company's management reviews the credit approval process and ensures that credit approval procedures are followed and that the risks of specific products are adequately captured.

(i) Maximum exposure

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

	2019	*2018*
Cash and cash equivalents	$ 1,000,736,596	$ 2,352,504,800
Loans and advances	13,046,228,476	11,992,168,926
Trade bills	333,459,521	84,572,375
Investment securities measured at FVTOCI	1,727,347,312	2,023,460,451
Other assets	29,321,000	26,602,113
Loan commitments and other credit related commitments	3,426,098,351	5,936,754,600
	$ 19,563,191,256	$ 22,416,063,265

(ii) Credit quality of loans and advances

Loans and advances are only made to customers and banks with good credit standing. At 31 October 2019 and 2018, no loans and advances to customers and banks are individually impaired, past due or rescheduled.

In addition to its internal ratings, the Company classifies loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA. At 31 October 2019 and 2018, all loans and advances are classified as "Pass" grade.

17 Financial risk management (continued)

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

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

At the end of the reporting period, the credit quality of investments in debt securities analysed by designation of external credit assessment institution Moody's Investors Service, Inc is as follows:

	2019	*2018*
Aa1 to Aa3	$ 497,910,000	$ 498,325,000
A1 to A3	1,229,437,312	1,525,135,451
Total	$ 1,727,347,312	$ 2,023,460,451

(iv) Collateral and other credit enhancements

The Company holds collateral against loans and advances to customers, mainly in the form of mortgages over property, to partially or fully secure its exposures.

Debt securities are generally unsecured. The Company's preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or following other pre-agreed termination events.

(b) Market risk management

The current policy is to maintain fully matched positions so that the monitoring and control of market risks are limited to ensure strict compliance to this requirement.

(i) Currency risk

The Company purchased Japanese Yen denominated debt securities where the investment funding is obtained from its related Company with same amount and tenor. In this respect, the Company is not materially affected by changes in movement in the value of the Japanese Yen against the Hong Kong dollars.

There were no structural foreign currency assets or liabilities at 31 October 2019 (2018: Nil).

17 Financial risk management (continued)

(ii) Interest rate risk

Sensitivity analysis on earnings and economic value to interest rate changes is assessed through a hypothetical interest rate change of 100 basis points across the yield curve on both sides of the statement of financial position and performed on a monthly basis. The results are reported to the Asset and Liability Management Committee ("ALCO").

The Company uses sensitivity analysis to measure the potential effect of changes in interest rates on the annual income and economic value of shareholders' equity:

	(Decrease)/increase in Company's annual income and economic value of shareholders' equity	
	2019	*2018*
Increase of 100 basis points	$ (4,443,749)	$ (3,465,943)
Decrease of 100 basis points	4,498,610	3,505,151
Increase of 200 basis points	$ (8,840,474)	$ (6,892,679)
Decrease of 200 basis points	9,044,244	5,449,843

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

(i) there is a parallel shift in the yield curve and in interest rate;

(ii) there are no other changes to the portfolio;

(iii) no loan repayment is assumed; and

(iv) decrease in interest rate is kept at a floor of 0% for the unfavourable effects in Company's annual income and economic value of shareholders' equity.

The following table indicates the effective interest rates for the relevant periods and the mismatches by repricing dates (or maturity date whichever are earlier) for interest-bearing assets and liabilities at the end of the reporting period. Actual repricing dates may differ from the contractual dates due to prepayments.

17 Financial risk management (continued)

2019	Effective interest rate %	Total	3 months or less (including overdue)	Over 3 months to 1 year	Non-interest bearing
Assets					
Cash and cash equivalents	-	$ 1,000,736,596	$ -	$ -	$ 1,000,736,596
Loans and advances	2.72	13,046,228,476	12,855,343,385	190,885,091	-
Trade bills	2.49	333,459,521	333,459,521	-	-
Investment securities measured at FVTOCI	0.42	1,727,347,312	1,293,300,397	434,046,915	-
Deferred tax assets		311,485	-	-	311,485
Other assets		29,321,000	-	-	29,321,000
Total assets		$ 16,137,404,390	$ 14,482,103,303	$ 624,932,006	$ 1,030,369,081
Liabilities					
Deposits and balances from banks	1.83	$ 10,666,754,176	$ 10,041,414,369	$ 625,339,807	$ -
Current taxation		21,870,503	-	-	21,870,503
Other liabilities		24,232,342	-	-	24,232,342
Total liabilities		$ 10,712,857,021	$ 10,041,414,369	$ 625,339,807	$ 46,102,845
Interest rate sensitivity gap			$ 4,440,688,934	$ (407,801)	

2018	Effective interest rate %	Total	3 months or less (including overdue)	Over 3 months to 1 year	Non-interest bearing
Assets					
Cash and cash equivalents	-	$ 2,352,504,800	$ -	$ -	$ 2,352,504,800
Loans and advances	2.96	11,992,168,926	4,892,013,825	7,100,155,101	-
Trade bills	2.81	84,572,375	84,572,375	-	-
Investment securities measured at FVTOCI	0.26	2,023,460,451	1,607,394,339	416,066,112	-
Current tax assets		336,317	-	-	336,317
Deferred tax assets		376,983	-	-	376,983
Other assets		26,602,113	-	-	26,602,113
Total assets		$ 16,480,021,965	$ 6,583,980,539	$ 7,516,221,213	$ 2,379,820,213
Liabilities					
Deposits and balances from banks	2.06	$ 11,027,491,850	$ 3,389,212,427	$ 7,638,279,423	$ -
Other liabilities		28,417,458	-	-	28,417,458
Total liabilities		$ 11,055,909,308	$ 3,389,212,427	$ 7,638,279,423	$ 28,417,458
Interest rate sensitivity gap			$ 3,194,768,112	$ (122,058,210)	

17 Financial risk management (continued)

(c) Liquidity risk management

Liquidity risk is the risk that the Company is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to counterparties, and lending and investment commitments.

Effective liquidity risk management is essential to maintain the confidence of counterparties, manage the Company's cost of funds and to support core business activities, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by the board of directors. The Board receives reports on risk exposures and performance against approved limits. ALCO provides senior management oversight of liquidity risk.

The key elements of the liquidity risk framework are:

- Measurement and modeling - the Company's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short-term horizons (cash gaps), a minimum level of core liquidity, and liquidity stress tests.

- Reporting - support the ALCO with analysis, risk measurement, stress testing, monitoring and reporting for their oversight of all significant liquidity risks.

- Stress testing - the Company performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and Company-specific disruptions on the Company's liquidity position. Liquidity stress testing has many purposes including:

  - Helping the Company to understand the potential behavior of various on-balance sheet and off-balance sheet positions in circumstances of stress; and

  - Based on this knowledge, facilitating the development of risk mitigation and contingency plans.

The Company's liquidity stress tests consider the effect of changes in funding assumptions, and the market value of liquid assets. The Company performs industry standard stress tests, the results of which are reviewed by senior management and are considered in making liquidity management decisions.

- Contingency planning - the Company maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event.

- Funding diversification - the Company actively manages the diversification of its funding liabilities by term.

- Core liquidity - the Company maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to Company-specific events.

17 Financial risk management (continued)

To fulfil these objectives, the Company measures and forecasts its cash commitments, maintains funding lines with the Hong Kong and Singapore branches of BNS, sets prudent limits and ensures immediate access to liquid assets.

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

	2019						
	Total	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*
Assets							
Cash and cash equivalents	$ 1,000,736,596	$ 1,000,736,596	$ -	$ -	$ -	$ -	$ -
Loans and advances	13,046,228,476	-	4,300,000,000	2,037,847,232	2,734,547,991	3,973,833,253	-
Trade bills	333,459,521	-	178,576,929	154,882,592	-	-	-
Investment securities measured at FVTOCI	1,727,347,312	-	361,532,230	931,768,167	434,046,915	-	-
Deferred tax assets	311,485	-	-	-	-	311,485	-
Other assets	29,321,000	1,222,373	16,154,448	11,225,722	718,457	-	-
Total assets	$ 16,137,404,390	$ 1,001,958,969	$ 4,856,263,607	$ 3,135,723,713	$ 3,169,313,363	$ 3,974,144,738	$ -
Liabilities							
Deposits and balances from banks	$ 10,666,754,176	$ -	$ 540,207,132	$ 2,654,981,044	$ 7,471,566,000	$ -	$ -
Current taxation	21,870,503	-	21,870,503	-	-	-	-
Other liabilities	24,232,342	-	7,557,515	11,800,064	4,874,763	-	-
Total liabilities	$ 10,712,857,021	$ -	$ 569,635,150	$ 2,666,781,108	$ 7,476,440,763	$ -	$ -
Net liabilities gap		$ 1,001,958,969	$ 4,286,628,457	$ 468,942,605	$ (4,307,127,400)	$ 3,974,144,738	$ -

17 Financial risk management (continued)

				2018			
	Total	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*
Assets							
Cash and cash equivalents	$ 2,352,504,800	$ 2,352,504,800	$ -	$ -	$ -	$ -	$ -
Loans and advances	11,992,168,926	-	3,411,799,861	1,538,455,324	868,985,449	6,172,928,292	-
Trade bills	84,572,375	-	15,424,461	69,147,914	-	-	-
Investment securities measured at FVTOCI	2,023,460,451	-	762,340,887	845,053,452	416,066,112	-	-
Current tax assets	336,317	-	-	-	336,317	-	-
Deferred tax assets	376,983	-	-	-	-	376,983	-
Other assets	26,602,113	1,816,193	17,456,166	7,182,397	147,357	-	-
Total assets	$ 16,480,021,965	$ 2,354,320,993	$ 4,207,021,375	$ 2,459,839,087	$ 1,285,535,235	$ 6,173,305,275	$ -
Liabilities							
Deposits and balances from banks	$ 11,027,491,850	$ -	$ 2,934,822,451	$ 454,389,976	$ 7,638,279,423	$ -	$ -
Other liabilities	28,417,458	-	11,453,337	8,271,996	8,692,125	-	-
Total liabilities	$ 11,055,909,308	$ -	$ 2,946,275,788	$ 462,661,972	$ 7,646,971,548	$ -	$ -
Net liabilities gap		$ 2,354,320,993	$ 1,260,745,587	$ 1,997,177,115	$ (6,361,436,313)	$ 6,173,305,275	$ -

17 Financial risk management (continued)

Further analysis of the cash flows payable by the Company for financial liabilities, including interest payable that will be settled by remaining contractual maturities at the end of reporting period, is presented in the following table. The amounts disclosed are based on the contractual undiscounted cash flows.

	2019						
	Repayable on demand	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*	*Gross cash outflow*
Deposits and balances from banks	$ -	$ 554,272,460	$ 2,680,751,365	$ 7,471,639,348	$ -	$ -	$ 10,706,663,173
Other financial liabilities	-	163,610	2,391,183	4,861,867	-	-	7,416,660
	$ -	$ 554,436,070	$ 2,683,142,548	$ 7,476,501,215	$ -	$ -	$ 10,714,079,833
Commitments:							
Direct credit substitutes	$ -	$ -	$ -	$ 158,711,400	$ -	$ -	$ 158,711,400
Trade-related contingencies	-	-	5,367,667	11,378,036	-	-	16,745,703
Transaction-related contingencies	-	222,000	27,148,000	44,015,000	-	-	71,385,000
Other commitments	774,888,951	-	-	-	-	-	774,888,951
	$ 774,888,951	$ 222,000	$ 32,515,667	$ 214,104,436	$ -	$ -	$ 1,021,731,054

17 Financial risk management (continued)

	2018						
	Repayable on demand	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*	*Gross cash outflow*
Deposits and balances from banks	$ -	$ 2,955,312,009	$ 531,415,002	$ 7,638,542,878	$ -	$ -	$ 11,125,269,889
Other financial liabilities	-	460,772	3,380,484	8,642,168	-	-	12,483,424
	$ -	$ 2,955,772,781	$ 534,795,486	$ 7,647,185,046	$ -	$ -	$ 11,137,753,313
Commitments:							
Direct credit substitutes	$ -	$ -	$ -	$ 500,000,000	$ 213,792,600	$ -	$ 713,792,600
Trade-related contingencies	-	28,340,126	42,083,340	36,958,561	-	-	107,382,027
Transaction-related contingencies	-	-	-	-	63,385,000	-	63,385,000
Other commitments	2,805,000,000	-	-	-	-	-	2,805,000,000
	$ 2,805,000,000	$ 28,340,126	$ 42,083,340	$ 536,958,561	$ 277,177,600	$ -	$ 3,689,559,627

17 Financial risk management (continued)

(d) Operational risk management

Operational risk is the risk of loss, whether direct or indirect, to which the Company is exposed due to external events, human error, or the inadequacy or failure of processes, procedures or controls. These risks are mitigated through ensuring segregation of duties, appropriate supervision, experienced personnel, compliance program to ensure adherence to regulatory requirements, timely reporting and technology appropriate to the level of activity and risk taking.

A number of indicators of this type of risk have been identified by management; for example - systems failure, limit overruns, settlement failure and penalty payments. A monthly exercise has been designed by the back office of the Company to monitor incidences of these occurrences and is reviewed by senior management.

(e) Capital management

The HKMA sets and monitors capital requirements of the Company. In implementing current capital requirements the HKMA requires the Company to maintain a prescribed ratio of total capital to total risk-weighted assets. The Company is exempted from maintaining capital against market risk by the HKMA and uses ratings from external credit assessment institutions as the basis for risk weightings for credit risk. Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

The process of allocating capital to specific operations and activities is undertaken by ALCO and is reviewed regularly by the Board.

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

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

18 Fair values of financial instruments

(a) Financial instruments carried at fair value

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

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

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

- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model input reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

18 Fair values of financial instruments (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2019	
	Level 2	*Total*
Asset		
Debt securities	$ 1,727,347,312	$ 1,727,347,312

	2018	
	Level 2	*Total*
Asset		
Debt securities	$ 2,023,460,451	$ 2,023,460,451

During the year, there were no Level 1 and Level 3 financial instruments.

(b) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from the fair values as at 31 October 2019 and 2018 unless otherwise stated:

(i) Financial assets

The Company's financial assets mainly include cash and cash equivalents, and loans and advances.

The fair values of balances with banks are mainly priced at market interest rates and mature within three months. Accordingly, the carrying values approximate the fair values.

The fair values of loans and advances, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rates which are mainly repriced within three months, are not materially different from their carrying amounts.

(ii) Financial liabilities

The Company's financial liabilities mainly include deposits and balances of banks and are mostly priced at market interest rates and with repricing period of one to three months. Accordingly, the carrying values approximate fair values.

19 Material related party transactions

(a) Transactions with key management personnel

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as disclosed in note 6, is as follows:

		2019		*2018*
Short-term employee benefits	$	8,701,811	$	8,538,527
Post-employment benefits		694,043		688,453
	$	9,395,854	$	9,226,980

Total remuneration is included in "staff costs" (see note 5(a)).

(b) Transactions with related parties

During the year ended 31 October 2019, the Company undertook the following related party transactions in the normal course of the Company's business:

	Note	*2019*	*2018*
Interest expenses paid to the ultimate holding Company and a fellow subsidiary Company	(i)	(225,187,952)	(170,769,589)
Administration service fee income earned from the ultimate holding Company and a fellow subsidiary Company	(ii)	5,912,317	6,074,751
Administration and support service fees paid to the ultimate holding Company and fellow subsidiary companies	(ii)	(14,134,812)	(15,347,974)
Other fee income earned from the ultimate holding Company and a fellow subsidiary Company	(iii)	4,174,455	7,098,540
Other service fees paid to the ultimate holding Company	(iv)	(7,963,260)	(12,375,467)
Staff cost reimbursed from/(paid) to the ultimate holding Company	(v)	-	330,264
Rental expenses paid to the ultimate holding Company	(vi)	(2,760,630)	(2,639,945)

19 Material related party transactions (continued)

Notes:

(i) Interest expenses

The Company borrowed funds from Bank of Nova Scotia, HK Branch ("BNSHK"), Bank of Nova Scotia, Singapore Branch ("BNSSG") and Bank of Nova Scotia Asia Limited ("BNSA") to finance its asset portfolio on normal market terms.

(ii) Administration services fee

The Company has entered into Technical Services Level Agreements with BNS group companies. Under the terms of the agreements, the Company and BNS group companies provide technical and administrative services to each other in areas of respective expertise and under which fees are receivable/payable.

(iii) Other fee income

Fee income was earned from BNSHK for the risk participation and guarantee services provided.

(iv) Other service fees

Fees were paid to the ultimate holding Company for the letter of credit confirmation, risk participation transactions, and committed funding facilities.

(v) Staff cost

The amount represents staff cost for service provided by the staff in the ultimate holding Company.

(vi) Rental expenses

The amount represents monthly office rental for renting the office premises from the ultimate holding Company.

19 Material related party transactions (continued)

(c) Balances with related parties

At 31 October 2019, the Company had balances with group companies as follows:

	2019	*2018*
Amount due from the ultimate holding Company included in:		
- Cash and cash equivalents	$ 1,000,736,596	$ 2,352,504,800
- Other assets	662,911	311,773
	$ 1,001,399,507	$ 2,352,816,573
Amount due to the ultimate holding Company included in:		
- Deposits and balances from banks	$ 10,659,726,185	$ 10,968,608,976
- Other liabilities	16,802,786	15,472,802
	$ 10,676,528,971	$ 10,984,081,778
Amounts due to fellow subsidiary companies included in:		
- Deposits and balances from banks	$ 7,027,991	$ 58,882,874
- Other liabilities	12,896	461,232
	$ 7,040,887	$ 59,344,106

(d) Contingent liabilities

The Company has a portfolio of risk participation and guarantee transactions with BNSHK. The aggregate principal amount outstanding as at 31 October 2019 was $158,711,400 (2018: $713,792,600).

(e) Loans to officers

No loans were made to officers for the year ended 31 October 2019 (2018: Nil).

20 Immediate parent and ultimate controlling party

At 31 October 2019, the directors consider the immediate parent and ultimate controlling party of the Company to be BNS International (Bahamas) Limited and The Bank of Nova Scotia which are incorporated in The Bahamas and Canada respectively. The Bank of Nova Scotia produces financial statement for public use.

21 Accounting estimates and judgements

Key sources of estimate

Note 18 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key source of estimate is as follows:

Allowance for credit losses

The allowance for credit losses, using an expected credit loss approach as required under HKFRS 9, is estimated using complex models and incorporates inputs, assumptions and techniques that involve a high degree of management judgment. Under HKFRS 9 expected credit loss methodology, an allowance is recorded for expected credit losses on financial assets regardless of whether there has been an actual loss event. The Company recognizes an allowance at an amount equal to 12 months expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). When a financial asset experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2 and subject to lifetime expected credit losses. Financial assets that are in default are included in Stage 3. Similar to Stage 2, the allowance for credit losses for Stage 3 financial assets captures the lifetime expected credit losses.

The main drivers in allowance for credit loss changes that are subject to significant judgment include the following:

- determination of point-in-time parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD);

- forecast of macroeconomic variables for multiple scenarios and probability weighting of the scenarios;

- assessment of significant increase in credit risk.

22 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 October 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 October 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company.

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

The Company has made an assessment of what the impact these amendments, new standards and interpretations is expected to be in the period of initial application and has concluded that the adoption of them will have no significant impact on the Company's financial statements.

Unaudited supplementary financial information

(Expressed in Hong Kong dollars unless stated otherwise)

The notes to the financial statements and the following unaudited supplementary financial information are prepared to comply with the Banking (Disclosure) Rules.

(a) Further analysis on loans and advances to customers analysed by industry sector

Loans and advances to customers analysed by the coverage of collateral and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2019			
	Gross loans and advances	*% of gross loans and advances covered by collateral*	*Collectively assessed impairment allowance*	*Impairment charged/ (released) to statement of profit or loss during the year*
Industrial, commercial and financial				
- Property development	$ -	-	$ -	$ -
- Property investment	1,238,128,838	-	52,202	32,699
- Manufacturing	1,558,792,723	-	196,358	(103,191)
- Transport and transport equipment	427,065,747	-	28,914	(45,897)
- Electricity, gas and telecommunications	2,258,050,592	-	204,548	33,937
- Others	2,355,330,966	32.9%	97,588	(246,305)
Loans and advances for use in Hong Kong	$ 7,837,368,866	9.9%	$ 579,610	$ (328,757)
Loans and advances for use outside Hong Kong	5,209,976,755	9.2%	537,535	(196,443)
Total	$ 13,047,345,621	9.6%	$ 1,117,145	$ (525,200)

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars unless stated otherwise)

(a) Further analysis on loans and advances to customers analysed by industry sector (continued)

	2018			
	Gross loans and advances	*% of gross loans and advances covered by collateral*	*Collectively assessed impairment allowance*	*Impairment (released)/ charged to statement of profit or loss during the year*
Industrial, commercial and financial				
- Property development	$ -	-	$ -	$ (126,665)
- Property investment	275,337,401	-	19,503	(127,762)
- Manufacturing	2,106,464,786	-	299,549	(319,177)
- Transport and transport equipment	465,239,396	8.3%	74,811	(18,600)
- Electricity, gas and telecommunications	1,482,656,949	-	170,611	71,645
- Others	2,553,008,660	30.4%	343,894	(608,202)
Loans and advances for use in Hong Kong	$ 6,882,707,192	11.8%	$ 908,368	$ (1,128,761)
Loans and advances for use outside Hong Kong	5,111,103,998	1.2%	733,896	(88,594)
Total	$ 11,993,811,190	7.3%	$ 1,642,264	$ (1,217,355)

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars unless stated otherwise)

(b) Segmental information

The Company's principal operation is carried out in Hong Kong. Accordingly, no details of segmental information by geographical area are disclosed. The Company is principally engaged in the corporate banking business which includes the extension of credit and trade finance facilities to commercial, industrial and institutional customers.

Geographical analysis of gross loans and advances to customers (by location of customers)

	2019	*2018*
Hong Kong	$ 9,133,600,530	$ 8,413,740,081
Asia Pacific excluding Hong Kong	3,913,745,091	3,580,071,109
	$ 13,047,345,621	$ 11,993,811,190

(c) International claims

The following table provides a breakdown of international claims by major countries and geographical segments. Only major countries or geographical locations with not less than 10% of the total international claims after taking into account any recognized risk transferred are disclosed.

	2019				
			Non-financial private sector		
	Banks	*Official Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed Countries	$ -	$ 1,229,435,175	$ -	$ -	$ 1,229,435,175
of which Japan	-	1,229,435,175	-	-	1,229,435,175
Offshore Centres	-	-	-	3,432,783,556	3,432,783,556
of which Hong Kong	-	-	-	3,432,783,556	3,432,783,556
Developing Asia and Pacific	334,439,619	-	2,147,285,944	1,780,262,416	4,261,987,979
of which China	334,439,619	-	1,755,400,490	1,773,218,779	3,863,058,888

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars unless stated otherwise)

(c) International claims (continued)

	2018				
			Non-financial private sector		
	Banks	*Official Sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
Developed Countries	$ -	$ 1,525,139,154	$ -	$ -	$ 1,525,139,154
of which Japan	-	1,525,139,154	-	-	1,525,139,154
Offshore Centres	-	-	-	4,337,488,543	4,337,488,543
of which Hong Kong	-	-	-	4,337,488,543	4,337,488,543
Developing Asia and Pacific	84,585,031	-	1,962,173,735	1,638,038,853	3,684,797,619
of which China	84,585,031	-	1,569,844,410	1,578,596,787	3,233,026,228

Claims arising between group companies were excluded.

(d) Non-bank Mainland exposures

Non-Bank Mainland exposures as at 31 October 2019 which had exceeded 10% of total loans and advances to customers was analysed as follows:

	2019		
	On-Balance sheet exposure	*Off-Balance sheet exposure*	*Total*
Central government, central government-owned entities and their subsidiaries and JV	$ 3,828,662,214	$ 942,471,400	$ 4,771,133,614
PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	360,174,977	-	360,174,977
Total	$ 4,188,837,191	$ 942,471,400	$ 5,131,308,591
Total asset after provision	$ 16,137,404,390		
On-balance sheet exposures as % of total asset	25.96%		

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars unless stated otherwise)

(d) Non-bank Mainland exposures (continued)

	2018		
	On-Balance sheet exposure	*Off-Balance sheet exposure*	*Total*
Central government, central government-owned entities and their subsidiaries and JV	$ 3,619,692,893	$ 998,352,600	$ 4,618,045,493
PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	278,150,402	655,000,000	933,150,402
Total	$ 3,897,843,295	$ 1,653,352,600	$ 5,551,195,895
Total asset after provision	$ 16,480,021,965		
On-balance sheet exposures as % of total asset	23.65%		

(e) Currency risk

The following net position constitutes 10% or more (either positive or negative) of the total net position in all foreign currencies:

	2019		
	USD	*JPY*	*Total*
Equivalent in HKD			
Spot assets	7,311,056,919	1,231,811,250	8,542,868,169
Spot liabilities	(7,272,320,228)	(1,230,102,334)	(8,502,422,562)
Forward purchases	-	-	-
Forward sales	-	-	-
Net option position			
Net long position	38,736,691	1,708,916	40,445,607

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars unless stated otherwise)

(e) Currency risk (continued)

	2018		
Equivalent in HKD	*USD*	*JPY*	*Total*
Spot assets	7,671,326,946	1,527,115,472	9,198,442,418
Spot liabilities	(7,662,470,723)	(1,525,501,603)	(9,187,972,326)
Forward purchases	-	-	-
Forward sales	-	-	-
Net option position	-	-	-
Net long position	8,856,223	1,613,869	10,470,092

No item was included as structural assets and liabilities as at 31 October 2019 (2018: $Nil).

(f) Operational risk

The HKMA has granted approval under section 25(2) of the Banking (Capital) Rules for the Company to use the basic approach to calculate its operational risk for capital assessment.

(g) Corporate governance

The Company is committed to high standards of corporate governance, and has fully complied throughout the year with the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA.

The board of directors ("Board") is responsible for the overall stewardship of the Company with a specific responsibility to supervise the management of the Company. In June 2019, the Board established four specialised committees of the Board being the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration and Culture Committee. These specialised board committees are being chaired by the independent non-executive director.

The Audit Committee responsible to assist the Board in fulfilling its oversight responsibilities for (i) the integrity of the Bank's financial statements; (ii) the system of internal control, including internal control over financial reporting and disclosure controls and procedures ("internal controls"); (iii) the external auditor's qualifications, independence and performance; and (iv) the Bank's internal audit functions.

The Risk Committee is responsible for assisting the Board in fulfilling its responsibilities for (i) the review of the Company's risk appetite and identifying and monitoring key financial and non-financial risks; (ii) the review of risk management frameworks; and (iii) the oversight of the promotion and maintenance of a strong risk-aware culture throughout the Bank.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars unless stated otherwise)

(g) Corporate governance (continued)

The Nomination Committee is responsible for identifying individuals suitably qualified to become members of the Board and making recommendations to the Board on the appointment of Directors and succession planning for Directors.

The Remuneration and Culture Committee is responsible for:

- assisting the Board in discharging its responsibility for the design and operation of the Company's remuneration system, and making recommendations in respect of remuneration policy and practices to the Board; and

- assisting the Board in fulfilling its oversight responsibilities for setting standards of conduct and ethical behaviour; and the oversight of conduct and conduct risk management.

ALCO is responsible for the implementation and maintenance of the overall risk management framework relating to statement of financial position structure, interest rate, funding and liquidity management across the Company's business. The committee is comprised of the Managing Director, Regional Treasurer, Chief Executive, Senior Risk Officer, Asia, Head of Treasury, Hong Kong & China and Senior Manager of Global Wholesale Operations, Hong Kong. It meets on a monthly basis and more often when required.

SCOTIABANK (HONG KONG) LIMITED

Osbert H. W. Ho
Alternate Chief Executive

February 28, 2020

Note: In the event of any difference in interpretation or meaning between the Chinese and English version of this Statement, the English version shall prevail.