ZA BANK LIMITED

REPORT OF DIRECTORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

ZA BANK LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

CONTENTS

REPORT OF DIRECTORS

The directors submit their report together with the audited financial statements of ZA Bank Limited (the "Bank") for the year ended 31 December 2020.

Principal activities

The Bank is a licensed bank authorized under the Banking Ordinance in Hong Kong. The principal activities of the Bank are to provide banking services to its customers.

Results and appropriations

The results of the Bank for the year are set out in the statement of comprehensive income on page 7.

The directors do not recommend the payment of any dividend.

Share capital

Details of the shares issued in the year ended 31 December 2020 are set out in note 20 to the financial statements.

Directors

The directors, including executive director ("ED"), non-executive directors ("NED") and independent non-executive directors ("INED") of the Bank during the year and up to the date of this report were:

OU Yaping (NED) - Chairman
HSU Rockson (ED) – Chief Executive
OU Jin Yi Hugo (NED)
XIAO Feng (NED)
ZHANG Shengman (INED)
HUANG Ming Xiang (INED)
LO Kin Ching, Joseph (INED)

There being no provision to the Bank's Articles of Association for retirement by rotation, all directors continue in office.

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

No transactions, arrangements or contracts to which the Bank, any of its parent company, its subsidiary undertakings or subsidiary undertakings of its parent company was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in the shares, underlying shares and debentures of the Bank or any specified undertaking of the Bank

Certain subsidiaries of the ultimate parent company of the Bank, ZhongAn Online P&C Insurance Co., Ltd. ("the ultimate parent company"), maintain share schemes or plans which subsisted at the end of the year or at any time during the year, under which eligible directors of the Bank may be granted shares/share options for acquisition of shares of the respective companies concerned.

During the year, Mr. HSU Rockson, a director of the Bank, was granted share options of a subsidiary of the ultimate parent company for acquisition of shares of the company concerned.

Apart from the above, at no time during the year was the Bank, any of its parent company, its subsidiary undertakings or subsidiary undertakings of its parent company a party to any arrangement to enable the directors of the Bank (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

REPORT OF DIRECTORS (Continued)

Management contracts

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

Permitted indemnity provision

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

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Rockson Hsu
Director and Chief Executive

Hong Kong, 22 March 2021

羅兵咸永道

Independent Auditor's Report

To the Member of ZA Bank Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of ZA Bank Limited (the "Bank") set out on pages 7 to 43, which comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank 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.

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Independent Auditor's Report

To the Member of ZA Bank Limited (Continued)
(incorporated in Hong Kong with limited liability)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the report of directors, but does not include 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.

Responsibilities of Directors and the Audit Committee 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Independent Auditor's Report

To the Member of ZA Bank Limited (Continued)
(incorporated in Hong Kong with limited liability)

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. We report our opinion 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 Bank 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.

Independent Auditor's Report

To the Member of ZA Bank Limited (Continued)
(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We communicate with the Audit Committee 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Interest income	5	65,933	18,827
Interest expense	5	(39,558)	(222)
Net interest income		26,375	18,605
Net fee and commission income	6	1,138	-
Net gains from disposal of investment securities at fair value through other comprehensive income ("FVOCI")		4,800	-
Operating expenses	7	(378,897)	(212,680)
Operating loss		(346,584)	(194,075)
Change in expected credit losses on loans and advances to customers		(8,722)	-
Change in expected credit losses on other financial assets		(5,536)	(92)
Other income		8,641	1
Loss before income tax		(352,201)	(194,166)
Income tax	9	-	-
Net loss for the year		(352,201)	(194,166)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
- Changes in the fair value of debt instruments measured at FVOCI, net of tax		1,016	61
Total comprehensive loss for the year		(351,185)	(194,105)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Notes	2020	2019
ASSETS			
Balances with central bank	11	646,127	14,587
Placements with and advances to banks	12	1,782,537	1,250,283
Loans and advances to customers	13	674,135	-
Investment securities measured at FVOCI	14	4,651,714	99,974
Intangible assets	15	18,598	13,797
Fixed assets	16	1,945	-
Other assets	17	86,122	12,883
Total assets		7,861,178	1,391,524
LIABILITIES			
Deposits from customers	18	6,036,580	26,607
Other accounts and accruals	19	263,217	52,351
Total liabilities		6,299,797	78,958
EQUITY			
Share capital	20	2,100,000	1,500,000
Reserves		1,077	61
Accumulated losses		(539,696)	(187,495)
Total equity		1,561,381	1,312,566
Total liabilities and equity		7,861,178	1,391,524

The above statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 7 to 43 were approved by the board of directors on 22 March 2021 and were signed on its behalf.

Rockson Hsu
Director

Ou Yaping
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Note	Share capital	Reserves	(Accumulated losses)/ Retained earnings	Total equity
Balance at 1 January 2019		1,000,000	-	6,671	1,006,671
Issue of ordinary shares	20	500,000	-	-	500,000
Loss for the year		-	-	(194,166)	(194,166)
Other comprehensive income (net of tax)					
- Change in the fair value of debt instruments measured at FVOCI		-	61	-	61
Balance at 31 December 2019 and 1 January 2020		1,500,000	61	(187,495)	1,312,566
Issue of ordinary shares	20	600,000	-	-	600,000
Loss for the year		-	-	(352,201)	(352,201)
Other comprehensive income (net of tax)					
- Change in the fair value of debt instruments measured at FVOCI		-	1,016	-	1,016
Balance at 31 December 2020		2,100,000	1,077	(539,696)	1,561,381

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
OPERATING ACTIVITIES			
Loss before income tax		(352,201)	(194,166)
Adjustment for:			
Depreciation and amortization expense	7	5,059	1,880
Interest expense arising from lease liabilities	10	62	162
Change in expected credit losses		14,157	92
Changes in operating assets and liabilities:			
Placement of bank deposits with original maturity beyond 3 months		(863,000)	-
Increase in other assets	17	(72,961)	(10,918)
Increase in loans and advances to customer	13	(682,754)	-
Increase in deposits from customers	18	6,009,973	26,607
Increase in other accounts and accruals	19	212,125	50,335
Net cash inflow/(outflow) from operating activities		4,270,460	(126,008)
INVESTING ACTIVITIES			
Withdrawal of bank deposits with original maturity beyond 3 months		-	600,000
Purchase of investment securities measured at FVOCI		(7,442,066)	(99,912)
Proceeds from sale and redemption of investment securities at FVOCI		2,884,024	-
Interest received		-	4,773
Payments for intangible assets		(7,716)	(14,695)
Purchase of fixed assets		(2,458)	-
Net cash (outflow)/inflow from investing activities		(4,568,216)	490,166
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	20	600,000	500,000
Principal element of lease payments	22	(2,184)	(1,092)
Net cash inflow from financing activities		597,816	498,908
Net increase in cash and cash equivalents		300,060	863,066
Cash and cash equivalents at the beginning of the financial year		1,264,962	401,896
Effect of exchange rate changes on cash and cash equivalents		977	-
Cash and cash equivalents at end of year		1,565,999	1,264,962
Cash and cash equivalents comprise:			
Balances with central bank	11	646,128	14,587
Balances with banks	12	117,787	15,212
- Placements with and advances to banks with original maturities 3 months or less		802,084	1,235,163
		1,565,999	1,264,962

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Hong Kong dollar thousands unless otherwise stated)

1. General information

ZA Bank Limited (the "Bank") is incorporated in Hong Kong on 8 August 2018 as a limited company under the Hong Kong Companies Ordinance (Cap. 622) ("HKCO"). The address of its registered office is Unit 1301, Level 13, IT Street, Cyberport 3, 100 Cyberport Road, Hong Kong. The Bank provides banking services to its customers.

The Bank is a wholly-owned subsidiary of ZhongAn Financial Services Limited (the "parent company"). The ultimate parent company of the Bank is ZhongAn Online P&C Insurance Co., Ltd. (the "ultimate parent company"), incorporated in the People's Republic of China and listed on the Main Board of the Stock Exchange of Hong Kong.

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards ("HKFRS") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The financial statements of the Bank have been prepared in accordance with HKFRSs and requirements of the HKCO.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for investment securities measured at FVOCI.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

2. Summary of significant accounting policies (Continued)

2.2 Foreign currency translation

(i) ***Functional and presentation currency***

Items included in the financial information are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Hong Kong dollar, which is the Bank's functional currency and presentation currency.

(ii) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings and all other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income.

2.3 Interest income

Interest income on financial assets at amortized cost ("AC") and FVOCI calculated using the effective interest method is recognized in the statement of comprehensive income as interest income.

2.4 Fee and commission income

Fees and commissions income are recognized on an accrual basis when the service has been provided to customers. Loan fees for servicing a loan are recognized as fee income. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party are recognized when the act is completed.

2.5 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions.

2.6 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2. Summary of significant accounting policies (Continued)

2.7 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.8 Financial assets

(i) Recognition and derecognition

Financial assets are recognized when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset.

(ii) Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

- those to be measured at AC.

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

2. Summary of significant accounting policies (Continued)

2.8 Financial assets (Continued)

(ii) Classification and subsequent measurement (Continued)

Subsequent to the initial recognition, for assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at AC. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

(iii) Impairment

The Bank assesses on a forward looking basis the expected credit losses associated with its short-term bank deposits, cash and cash equivalents, loans and advances to customers and investments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. At initial recognition, allowance is required for expected credit loss resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, allowance is required for expected credit loss resulting from all possible default events over the expected life of the financial instrument. For financial assets that is credit-impaired at the reporting date, the Bank measure the expected credit loss as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

2.9 Financial liabilities

(i) Recognition and derecognition

Financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial liabilities are recognized on trade-date, the date on which the Bank commits to purchase or sell the liabilities.

(ii) Classification and subsequent measurement

At initial recognition, the Bank measures a financial liability at its fair value, net of transaction costs incurred (if any) and subsequently at AC using the effective interest method.

2. Summary of significant accounting policies (Continued)

2.10 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.11 Share capital

Ordinary shares are classified in equity when there is not any obligation to transfer cash or other assets to the holders.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Employee benefit expense

(i) *Short-term obligations*

Liabilities for wages and salaries, including bonus and annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) *Defined contribution schemes*

The employees of the Bank participate in various defined contribution pension plans principally organized by municipal and provincial governments. Contributions to defined contribution schemes, such as the Mandatory Provident Fund ("MPF") Scheme, are expensed as incurred. The Bank has no other significant legal or constructive obligations for retirement benefits beyond the said contributions, which are expensed as incurred.

The Bank pays early retirement benefits to those employees who accept early retirement arrangements approved by management. Early retirement benefits are paid to those employees who voluntarily retire before the normal retirement date. The related benefit payments are made from the date of early retirement through the normal retirement date. The Bank records a liability for the present value of its early retirement obligation when employees retire early.

2. Summary of significant accounting policies (Continued)

2.13 Share-based payments

The Bank granted a cash-settled share-based compensation plan, under which the Bank receives services from employees as consideration for equity instruments of the intermediate holding company of the Bank. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions;
- Including the impact of any non-vesting conditions.

At the end of each reporting period, the Bank revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income.

2.14 Other payables

These amounts represent other accruals for expenses incurred prior to the end of financial year which are unpaid. The amounts are unsecured. They are recognized initially at their fair value and subsequently measured at AC using the effective interest method.

2.15 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

2. Summary of significant accounting policies (Continued)

2.15 Current and deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the Bank has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.16 Intangible assets

Expenditure on maintaining computer software is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Bank has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalized development costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred. Other intangible assets that are acquired by the Bank are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses.

Amortization methods and periods

The Bank amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

- Software 3-5 years

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

2.17 Fixed assets

Equipment are stated at historical cost less depreciation. Depreciation are calculated on the straight-line basis over 3 years to write off the assets over their estimated useful lives.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

3. Financial risk management

This note explains the Bank's exposure to financial risks and how these risks could affect the Bank's future financial performance.

3.1 Financial risk factors

The Bank conducts its business activities and operations by identifying, assessing, measuring, monitoring and reporting the key inherent risks. By effectively managing such risks, the Bank intends to strike a balance between the amount and types of risks the Bank is willing to take, and the level of return the Bank aims to achieve.

The Bank has a comprehensive risk governance and management framework in place to ensure the risk inherent in the business activities is being managed properly, to comply with the regulatory requirement set out by the regulators and to assess the adequacy of internal capital accordingly. These objectives are delivered through means of properly defined risk appetite in accordance with the Bank's business strategies, well-documented risk policies that established controls and limits to identify, assess, monitor and remedy the risk and formulated through clear procedures for execution of these policies.

The governance structure covers three layers including the board of directors and its subordinate committees, the senior management and the functional committees and the three line of defence formed from risk management units.

The board of director has the ultimate responsibility for overseeing the risk governance of the Bank and is responsible for ensuring an effective organizational risk management framework in place for both business and regulatory purposes. The Board and its subordinate committees have the final authority to determine the optimal risk appetite in the interest of shareholder and formulate the appropriate risk management strategy and enforce the correct risk culture within the organization. For effective management, the Board has delegated authority to several Board-level committees to carry out risk management tasks. The Board-level committees include Audit Committee, Nomination Committee, Remuneration Committee, Risk Committee ("RC") and Executive Committee ("EXCO"). Risk Committee is responsible for reviewing material issues escalated by management-level committee and to monitor the Bank's risk management strategies, key risk policies and risk appetite on a regular basis.

Senior management established several management-level committees under the committees delegated by the Board to oversee the governance of the Bank and provide oversight of various risk disciplines. The management-level committees include New Product Committee, Disciplinary Committee, Technology and Cyber Resilience Committee, Asset & Liability Management Committee ("ALCO"), Anti-Money Laundering Committee, Credit Committee, Risk Management Committee ("RMC") and Wealth Management Committee. They are responsible for the risk management tasks including reviewing and approving risk appetite and various policies in accordance with the regulatory requirement and business strategies regularly, initiating new risk management strategies and measures in response to the launch of new product and services, and regulatory change and providing advice on material risk-related activities to the Board-level committee.

The Bank implements a "three lines of defence" approach to ensure effective risk management across the Bank. Frontline business units act as the first line of defence for risk management and are responsible for soliciting business in compliance with the risk policies and procedures, assuring the risk level of their business within the internal risk limits.

3.1 Financial risk factors (Continued)

Various risk management units represent the second line of defence which are independent of the business units and are responsible for day-to-day management tasks including identifying, assessing and monitoring the risk in the business, reporting the implementation of risk procedures and the risk profiles of the business to the functional committee and providing support to senior management for decision-making.

Internal audit acts as the third line of defence and is responsible for conducting independent checking on the adequacy of internal policies and the execution of the procedures and controls. They are also responsible for reporting to the senior management, providing recommendations to improve the internal policies and procedures.

The Bank adopts the risk approach set out by the Hong Kong Monetary Authority ("HKMA") in managing risk with eight types of principle risks including credit risk, market risk, interest rate risk, liquidity risk, operational risk, technology risk, reputation risk, and strategic risk. The Bank establishes various risk limits and indicators in the risk appetite and reports it to the senior management and the Board regularly. Any breaches on these limits is reported to the senior management and the Board, and remediation actions are to be carried out accordingly.

Our risk culture is reflected in the risk tolerance level stipulated in Risk Appetite Statement ("RAS") which specifies the limits of major risk areas. RAS is approved by the board and fully communicated to the EXCO and Core Bank Team. Its daily enforcement is regularly reviewed by RMC.

Reports of risk management are regularly reported by the respective risk management and function units to ALCO, RMC, EXCO and RC for reviews. Hits of Early Warning Indicators ("EWI") and breaches of internal and/or external limit will lead to risk mitigation actions submitted to appropriate management level and board level committee for approvals.

Stress testing is an essential tool for the Bank's overall risk management. The Bank regularly applies stress testing techniques to assess the risk tolerance level of the Bank under stress scenarios on individual risk disciplines covering the Bank's major portfolios and applies risk mitigation strategy and contingency plans accordingly.

(i) Credit risk

Risk management

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations with agreed terms. Credit risk exists throughout the activities of a bank, including in the banking book, and both on- and off-balance sheet transaction. The credit risk exposure principally arises from investment in debt securities, lending of personal loan and commercial loan business.

The Bank has formulated a comprehensive set of policies and procedures that outlines the governance framework and appropriate credit limits to manage and monitor the credit risk that may arise from different credit portfolios in both portfolio level and individual level. The policies cover various areas including credit risk governance structure, customer selection criteria, customer acceptance criteria and post-approval monitoring. The principal objectives of such mechanism are:

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(i) *Credit risk (Continued)*

Risk management (Continued)

- To analyze the credit risks of various credit portfolios, geographic locations of borrowers and types of loans, etc.;
- To forecast and monitor any changes in the credit rating and risk return dynamics in each credit portfolio;
- To evaluate the components and allocations of the credit portfolios regularly and make timely adjustments in case of changes in the economic environment/industry situations; and
- To implement effective capital and resources allocation over different types of credit-related activities, mainly through the re-balancing and controlling of the portfolios and the migration of the overall portfolio's credit risk hedging.

The overall credit risk is managed through a hierarchy of approval authorities of the Bank. Credit Committee has the highest level of credit approval authority. Credit Risk Management rests with Risk Management which in turn reports to RMC.

The Bank established a comprehensive monitoring process and intends to manage the risk level in the credit portfolio that aligns with the Bank's risk appetite and identify any early warning signal of credit deterioration. Various metric is adopted to assess and monitor the quality of credit exposure in both acquisition stage and post-approval stage. Accounts are classified into different risk levels based on their latest credit status and history. For loan facilities that miss the scheduled payment are managed separately with proper follow-up action. In addition to the condition of the customers, the quality of credit exposure may deteriorate due to adverse economic environment.

The Bank monitors the performance of key macro-economic indicators. The Bank also applies stress testing technique periodically to assess the vulnerability of the credit portfolio under adverse market condition. Ad hoc stress assessment will also be conducted when market seem to deteriorate.

The quality of the overall credit portfolio is assessed and monitored monthly by a few key indicators including 30 days-past-due ratio and gross credit charge-off amount in a calendar year. Senior management of the Bank is alerted if the indicators breach the limit defined in risk appetite. Remedial action may be taken if necessary.

The Bank also aims at holding a credit portfolio that has diversified characteristic to minimize the concentration risk. The Bank identifies credit concentration risk by nature of products, geography, customer, counterparty and industry. The Bank is currently with simple business strategy and operations, the limits are largely with the Financial Institutions and trading counterparty by following the statutory limitations on large exposures and risk concentrations limits. Concentration Risk of Retail Loan Business is inherently diversified and loans to commercial credit are granular in nature also.

Expected credit loss ("ECL") measurement

As explained in note 2.8(iii), the Bank assesses on a forward looking basis the ECL associated with its balances with central banks, placements with and advances to banks, loans and advances to customers and investment securities measured at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(i) Credit risk (Continued)

Expected credit loss ("ECL") measurement

Under HKFRS 9, ECL exposures are classified into three stages:

- Stage 1 applies when there is no significant increase in credit risk since initial recognition. 12-month ECL is required for assets classified in stage 1.

- Stage 2 applies when a significant increase in credit risk has occurred on an individual or collective basis since initial recognition, with no objective evidence of credit event. Lifetime ECL calculation is required for assets classified in stage 2.

- Stage 3 applies when there is objective evidence of credit impairment. Lifetime ECL calculation is required for assets classified in stage 3.

Significant credit deterioration criteria have to be defined for assessing significant increases in credit risk, primarily based on the key requirements summarized below:

- Risk of default occurring at reporting time is compared against that of initial recognition
- Expedient of low credit risk threshold is allowable
- 30 days past due rebuttable presumption applied if no reasonable and supportable forward-looking information is available
- Change of risk of default occurring over the life of credit exposure should be considered
- Expedient of considering risk of default occurring over the next 12 months is allowable if the default pattern is not concentrated at a specific point of the expected life
- Number of notch downgrade >= 3 notches
- Loan classification equal to Special Mention, Substandard, Doubtful or Loss

When a financial instrument has objective evidence of impairment, e.g. bankruptcy, it is classified as stage 3 exposure. Individual assessment is conducted to estimate the expected credit loss of such exposures.

Calculation of ECL

The Bank has adopted to use the statistical model approach, under which ECL is calculated as a function of probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and expected life. To recognize lifetime ECL for financial instruments and incorporate forward-looking elements into the model, historical, current and forward-looking data are used in ECL calculation model.

Point-in-Time ("PiT") PD is adopted in the ECL estimation. The Bank took into account both qualitative and quantitative criteria while determining the approach for each product type.

LGD measures the loss severity in case of default, i.e. how much the Bank expects to lose as a percentage of EAD when an account goes into default. At the stage of model development, the Bank has not carried out secured lending so that LGD is modeled upon unsecure business.

EAD is the amount that a Bank is exposed to at the time of a loan's default. Financial assets measured at AC, FVOCI and loan commitment are subject to impairment under HKFRS 9.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(i) Credit risk (Continued)

Calculation of ECL (Continued)

Under HKFRS 9, ECL is calculated based on the maximum contractual period over which the entity is exposed to credit risk. For exposures with maturity date, residual maturity should be taken as the expected life. For exposures without maturity date, the treatment varies depending on the asset type.

Incorporation of forward-looking information into the ECL models

HKFRS 9 requires an estimate of forward-looking ECL which is typically obtained through the use of forecasted macroeconomic factors ("MEFs"). The Bank considered the following MEFs of Hong Kong, China and the US which were collected from the public source in International Monetary Fund World Economic Outlook database for debt securities macro-economic response model:

- Gross domestic product
- Unemployment rate
- Inflation rate
- Volume of imports of goods and services
- Volume of exports of goods and services
- 6-month LIBOR on USD deposits

In an economic model, market practice is to use a sufficiently long data period representing a complete economic cycle.

In order to fulfil the requirements of probability weighted forward-looking ECL, different scenarios such as booming or stressed scenarios are also required for estimating ECLs.

Scenario generator aims to provide forecasts for macro-economic factors for various scenarios (e.g. good, neutral, bad scenarios) on quarterly basis. The Bank did an in-depth study on relationships of MEFs in historical scenarios, and selected scenario that are more reflective of future economic situation for scenario development. The Bank also leveraged regulatory scenarios by adjusting the severity to meet the requirement of HKFRS 9.

There have been no changes made to estimation techniques or significant assumptions for ECL calculation during the year.

Credit risk exposure

As at 31 December 2020 and 2019, credit risk arises mainly from balances with central banks, placements with and advances to banks and investment securities measured at FVOCI. The counterparties are rated at investment grade based on the ratings published by the credit agencies. Also, credit risks arises from loans and advances to customers as at 31 December 2020.

The ECL as of 31 December 2020 and 2019 are HK$14,248,975 and HK$91,958.

The Bank does not hold collateral or other credit enhancement associated with the financial assets.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(i) Credit risk (Continued)

Calculation of ECL (Continued)

Credit Risk Grading

In order to fulfil the requirements of probability weighted forward-looking ECL, PiT PD is adopted in the ECL estimation. The bank took into account both qualitative and quantitative criteria while determining the approach for each product type. Two approaches were developed to capture the specific risk characteristics of products:

Wholesale:
The principle of risk factor approach is to convert through-the-cycle ("TTC") PD, i.e. historical long-term average transition matrix, to PiT PD, i.e. transition matrix in a particular year reflecting the current economic situation at that time.

- Risk factor approach for debt securities portfolio: Due to insufficient internal default data, the bank built the PD model using external credit data i.e. transition matrix for non-retail portfolios.

Retail:
Based on external aggregated default data, point in time cumulative PD for each rating is calculated.

- Default curve extrapolation approach: Due to insufficient internal data in personal instalment loans, the bank leveraged the aggregated instalment loan default rate data by rating and developed the PD model using the curve extrapolation approach for unsecure personal loans.

Grouping of instruments

The bank uses different approaches for different financial instruments when assessing ECL while the portfolios separated into Retail and Wholesale in loans and advances (Retail) and debt securities (Wholesales).

Retail	Wholesales
• Product Type (e.g. Personal Installment Loan) • Revolving nature (e.g. Revolving or Non-Revolving	• Asset Type (Subordinated Bond, Senior Bond)

The following exposure are assessed individually.

Retail	Wholesales
• Stage 3 loans	• Stage 3 facilities • Stage 2 facilities

(All amounts in Hong Kong dollar thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(i) *Credit risk (Continued)*

Write-offs Policy

The Bank Write-off will be classified into Contractual Write-off and Early Write-off.

Contractual Write-off (180 days past due ("DPD") +):

Upon 180 DPD, the principal of the account must be written off. This is important to prove that we have neither given up any chance to recover the outstanding from Customer nor stopped collection activities reminding Customer about his/her payment obligation.

Early Write-off:

Early write-off refers to the written-off of account outstanding which is less than 180 DPD. Reasons include but not limited to bankruptcy, individual voluntary arrangement, fraud or deceased case.

Loss allowance

The loss allowance recognized during the year is impacted by a variety of factors, as described below:

- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	-	-	-	-
New financial assets originated or purchased	92	-	-	92
Loss allowance as at 31 December 2019 and 1 January 2020	92	-	-	92
New financial assets originated or purchased	13,478	-	872	14,350
Financial assets derecognized during the year	(92)	-	-	(92)
Write-offs	-	-	(101)	(101)
Loss allowance as at 31 December 2020	13,478	-	771	14,249

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(ii) *Liquidity risk*

Management of liquidity risk

Liquidity risk is the risk that the Bank cannot meet its financial obligations when they fall due without incurring significant loss. This may be caused by market disruption or liquidity event whereby the Bank is unable to liquidate assets or to obtain funding to meet its liquidity needs. Liquidity risk arises from various areas including deposits withdrawal either on demand or at contractual maturity or repayment to matured borrowings.

The Bank aims to maintain a diversified and stable funding sources with an appropriate mix of liabilities including borrowing from the interbank market and customer deposits. Appropriate amount of high-quality liquid assets is held in order to obtain funding and the sources of liquefiable assets is diversified in accordance with the Debt Investment Securities Policy to avoid concentration on assets with similar natures. The Bank seeks to maintain a diversified and stable source of funding to avoid over-reliance on a funding category or a small group of fund providers through setting up monitoring on funding concentration and setting up appropriate funding strategy and structure in the budgeting process.

The Bank has formulated Liquidity Risk Management policy that outlines the liquidity risk management framework according to the requirements of HKMA's Supervisory Policy Manuals "Regulatory Framework for Supervision of Liquidity Risk (LM1)" and "Sound Systems and Controls for Liquidity Risk Management (LM2)". The purpose of the policy is to ensure sufficient cash flows to meet all financial obligation and to comply with regulatory requirement.

The Bank has established a governance framework to oversee the overall liquidity risk. The board of directors is ultimately responsible for ensuring an effective liquidity risk management framework. The EXCO is delegated by the board of directors to provide guidance on the Bank's liquidity risk related activities and reviewing the liquidity risk profile and risk appetite of the Bank. A management committee namely ALCO is set up under the EXCO and is responsible for reviewing relevant liquidity reports regularly, reviewing material changes to liquidity risk models and model assumptions, overseeing the development and maintenance of Contingency Funding Plan ("CFP") and reviewing liquidity risk management controls such as limits and indicators in light of liquidity risk appetite of the Bank on a regular basis.

Different functional departments work closely to implement liquidity risk management controls, to monitor the liquidity position of the Bank and to comply with regulatory requirement. Treasury is responsible for liquidity management but not limited to:

- Manage liquidity risk management including intraday liquidity and implement liquidity risk; management strategies;
- Manage and control the funding in different currencies;
- Advise ALCO on latest market movement and expectation related to liquidity;
- Propose funding strategy and structure in the budget process for ALCO endorsement and approval; and
- Defining and implementing funds transfer pricing ("FTP") across all lines of business.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(ii) *Liquidity risk (Continued)*

Management of liquidity risk (Continued)

Finance department is responsible for coordinating the liquidity risk disclosure process, measuring and monitoring liquidity risk and advising ALCO in establishing limits and indicator, liquidity risk reporting for senior management review and compiling regulatory reports of liquidity position of the Bank.

The Bank has established a set of liquidity risk management limits and indicators to identify, assess, monitor and control liquidity risk, along with ongoing monitoring processes based on regulatory requirements and risk appetite. The Bank has also set up policies to govern such liquidity risk limits and indicators under regulatory requirements. The liquidity risk limits include statutory limits and internal risk limits and these limits are reviewed and approved by ALCO.

The Bank applies cash flow analysis to assess the adequacy of the Bank's liquidity position under both normal and stress scenarios. The Bank seeks to maintain sufficient liquidity to cover the project cash outflow under various stress scenarios.

In case of any breaches to the statutory limits and internal risk limits, different authorized parties in the governance framework including ALCO, EXCO and the Board of Directors if necessary will be informed and remedial action will be executed.

The intraday cash inflows and outflows are continuously being monitored during business day to ensure payment obligation can be met at all time. The Bank holds cash and other eligible securities as intra liquidity reserve.

The Bank has established a CFP which details clear strategies to identify the occurrence of a liquidity event and the operational procedures for addressing emergency funding situation so that the impact of such adverse situation to the Bank is minimized. The CFP is reviewed and approved by the ALCO, and revised upon changing business and market conditions. The details of the implementation of the plan is documented including the procedures, action plans to estimate the potential funding capacity need and responsibilities of relevant parties. The plan sets out the deployable funding sources, funding measures, potential step to meet critical payment, operational procedures and the estimated time to monetarize assets.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(ii) *Liquidity risk (Continued)*

Maturities of financial liabilities

The tables below analyze the Bank's financial liabilities into relevant maturity groupings based on their contractual maturities.

Contractual maturities of financial liabilities	On demand or less than 6 months	One year or less but more than 6 months	More than one year	Total contractual cash flows	Carrying amount liabilities
At 31 December 2020					
Deposit from customers	6,040,785	5,268	-	6,046,053	6,042,412
Other accounts and accruals	250,412	-	148	250,560	250,560
Lease liabilities	518	518	832	1,868	1,849
Total	6,291,715	5,786	980	6,298,481	6,294,821
At 31 December 2019					
Deposit from customers	26,869	1	-	26,870	26,775
Other accounts and accruals	50,167	-	-	50,167	50,167
Lease liabilities	-	1,092	1,092	2,184	2,016
Total	77,036	1,093	1,092	79,221	78,958

(iii) *Market risk*

Market risk is the risk of valuation loss or reduction in expected earnings stemming from adverse fluctuations in exchange rates, interest rates, credit spread, implied volatility and cross-currency basis spreads. The risk can exist in both non-trading and trading activities. Currently, the Bank does not involve in trading book business and market risk predominantly arises from the Bank's treasury activities. The major types of market risk come into three forms, interest rate risk, currency risk and price risk, and the risk mainly comes from the Bank's debt securities portfolio held as investment and/or liquidity management.

The Bank has formulated Market Risk Management Policy and Debt Investment Securities Policy that outlines the governance structure and measurements and controls of market risk in the Bank.

The policy details a clear strategy to manage different types of market risk that the Bank is exposed to. A market risk framework for different types of risk is established to clearly define risk profiles to ensure it is consistent with the overall risk appetite. Risk limits are developed by the risk department in conjunction with the treasury department. Price risk in transactions and open positions is monitored by the risk limits established.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(iii) *Market risk (Continued)*

The board of directors is ultimately responsible for ensuring an appropriate organization structure is in place for managing market risk. Market risk oversight rests with the risk department which in turn reports to the RMC.

The Bank adopts factor sensitivities analysis to identify, measure, monitor and control the market risk of the Bank. All transactions are captured for market risk measurements. The factor sensitivities are calculated, monitored and in most cases, limited for all relevant risks taken.

(a) *Foreign exchange risk*

The Bank is exposed to foreign exchange risk, primarily United States dollar ("USD") and Renminbi ("RMB"). The Bank's exposure to foreign currency risk at the end of the reporting period was as follows:

	31 December 2020		31 December 2019	
	RMB	USD	RMB	USD
Assets				
Placements with and advances to banks	76,782	86,613	5	2
Investment securities measured at FVOCI	-	2,501,511	-	-
Intangible assets	63	1,798	-	-
Other assets	146	40,437	-	-
Liabilities				
Deposits from customers	75,926	20,022	5	1
Other accounts and accruals	733	1,326	-	-

(b) *Interest rate risk*

Interest Rate Risk in Banking Book ("IRRBB") refers to the risk to the Bank resulting from adverse movements in interest rates that affects the banking book positions of the Bank. The Bank currently does not engage in trading book business. Interest rate risk arises from banking activities including lending and taking deposit with different repricing maturities and interest rates; also, the impact from the treasury investment securities portfolio and other treasury related activities. Excessive interest rate risk can pose significant adverse impact to both Bank's capital adequacy and earning.

The Bank has formulated the IRRBB Management Policy to govern the management framework which details the governance structure, the key measurement metrics and the reporting and monitoring responsibility.

The board of directors is ultimately responsible for ensuring appropriate organizational structure for IRRBB management. The EXCO is delegated by the board of directors and is responsible for providing governance on the Bank's IRRBB related exposure.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(iii) Market risk (Continued)

(b) Interest rate risk (Continued)

ALCO is set up under EXCO for overseeing IRRBB of the Bank. This includes providing advice to EXCO on IRRBB related issue, reviewing the IRRBB profile of the Bank and discussing remedial actions in case of any breaches of the early warning indicators ("EWI") or risk limits and reviewing and approval of the IRRBB Management Policy.

The Bank measures and monitors IRRBB with two key metrics, economic value sensitivity ("EVS") and earning at risk ('EaR"). The two metrics, EVS and EaR, measures the IRR exposures on economic value of equity perspective and on earning perspective which aims to provide a more comprehensive view on the IRRBB profile of the Bank. The risk limits and EWI are set up based on the two metrics. Finance department is responsible for monitoring these limits at least on a quarterly basis.

The potential mitigation actions mainly relate to market operations and balance sheet restructuring, these include rebalancing of repricing gap through management strategy on time deposits and other liabilities and disposal of marketable securities.

The Bank adopts stress testing techniques to assess the vulnerability to losses regularly due to interest rate change in the six stress scenarios specified in the HKMA's Supervisory Policy Manuals "Interest Rate Risk in the Banking Book" ("IR-1").

The Bank has conducted behavioral assumption analyses for non-maturity deposit and retail unsecured installment loan, the analysis is used in calculation of IRRBB metrics where applicable.

The Bank conducts independent periodic review of the IRRBB assessment process to ensure its integrity and accuracy.

At 31 December 2020 and 2019, majority of the Bank's interest rate sensitive assets which are placements with and advances to banks, loans and advances to customers and investment securities measured at FVOCI.

Sensitivity

At 31 December 2020, if the interest rates had been increased/decreased by 200 (2019: 200) basis points at the end of the year and all other variables were held constant, the Bank's profit after income tax and equity would increase/decrease by approximately HK$39,419,056 (2019: HK$24,434,132) respectively.

The method and assumptions used in the above sensitivity analysis are in accordance with Supervisory Policy Manual IR-1 "Interest Rate Risk in the Banking Book" set out by the HKMA.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(iv) Fair value estimation

The following tables present the carrying value of the Bank's financial assets and financial liabilities recognized at fair value on a recurring basis, classified according to the fair value hierarchy.

	Level 1	Total
At 31 December 2020		
Investment securities measured at FVOCI		
- Debt securities	4,651,714	4,651,714
	4,651,714	4,651,714
At 31 December 2019		
Investment securities measured at FVOCI		
- Debt securities	99,973	99,973
	99,973	99,973

There were no significant transfers of financial assets or liabilities between level 1 and level 2 fair value hierarchy classifications.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

For financial assets and financial liabilities not carried at fair value on the financial statements, the Bank has ascertained that their fair values were the reasonable approximation of the carrying amounts at year end due to short-term nature.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(v) *Financial instruments by category*

The Bank's financial instruments include the following:

	2020	2019
Financial assets at AC		
- Balances with central banks	646,127	14,587
- Placements with and advances to banks	1,782,537	1,250,283
- Loans and advances to customers	674,135	-
Financial assets at FVOCI		
- Investment securities measured at FVOCI	4,651,714	99,974
	7,754,513	1,364,844
Financial liabilities at AC		
- Deposits from customers	6,036,580	26,607
- Other accounts and accruals	258,241	52,351
	6,294,821	78,958

3.2 Capital management

The Bank established the Capital Management Policy that outlines the governance structure and the capital management framework according to HKMA's Supervisory Policy Manual ("SPM") on "Overview of Capital Adequacy Regime for Locally Incorporated Authorized Institutions" ("CA-G-1") and "Supervisory Review Process" ("CA-G-5"). The objective of policy is to maintain a strong capital position to support the Bank's business strategy and serve as a buffer to absorb losses.

The Bank implements a hierarchy of authorities to manage the capital position. The board of directors oversees the effectiveness of the Bank's capital framework and ensures an appropriate organization structure for capital management.

Treasury department coordinates with the Asset and Liability Management team from Finance department to implement the capital management strategy. Treasury Department is responsible for maintaining sufficient capital level which complies with the Capital Adequacy Ratio ("CAR") while retaining flexibility to take advantage of future investment opportunities. ALM team is responsible for monitoring CAR and different capital limits, including common equity tier 1 ratio, tier 1 capital ratio, total capital ratio and leverage ratio and performing independent assessment on the Bank's capital management activities and monitoring capital position. Finance department is responsible for reporting the limits utilization and any limit breaches to senior management. Finance department and treasury department report to ALCO in relation to the monitoring of capital management.

The Bank defines a clear framework to assess and monitor the adequacy of the internal capital level, the Bank meets these objectives through the establishment of internal minimum capital requirements and a strong capital management governance framework.

4. Critical estimates and judgements

The preparation of financial information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Bank and that are believed to be reasonable under the circumstances.

Useful life of intangible assets

The Bank estimates the useful life of the purchased software to be three to five years based on the expected technical obsolescence of such assets.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The period covered by the termination options is not part of the lease term, since each party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 3.

Deferred taxation

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management consider it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

5. Net interest income

(a) Interest income

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income arising from:		
- financial assets measured at AC	29,997	18,825
- financial assets measured at FVOCI	35,936	2
	65,933	18,827

(b) Interest expense

	Year ended 31 December 2020	Year ended 31 December 2019
Interest expense arising from:		
- financial liabilities measured at AC	39,496	60
- lease liabilities (note 10)	62	162
	39,558	222

6. Net fee and commission income

	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income	1,637	-
Less: fee and commission expense	(499)	-
	1,138	-

7. Operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Employee benefit expense (note 8)	196,077	144,329
Advertising and promotion expense	79,646	-
Legal and professional fees	22,286	20,856
Rental expense	12,373	10,063
Depreciation and amortization expense	5,059	1,880
Auditors' remuneration	2,387	500
Others	61,069	35,052
	378,897	212,680

(All amounts in Hong Kong dollar thousands unless otherwise stated)

8. Employee benefit expense (including director's emolument)

	Year ended 31 December 2020	Year ended 31 December 2019
Salaries, staff welfare and insurance cost	194,450	143,299
Pension costs – defined contribution plans	1,627	1,030
	196,077	144,329

9. Income tax

Hong Kong profits tax has been provided at the effective rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

(a) Income tax expense

	Year ended 31 December 2020	Year ended 31 December 2019
Total current tax expense	-	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Year ended 31 December 2020	Year ended 31 December 2019
Loss before income tax	(352,201)	(194,166)
Tax at the Hong Kong tax rates of 16.5%	(58,113)	(32,037)
Income not subject to tax	(363)	(2,332)
Expense not deductible for tax purpose	1,444	267
Unused tax losses for which no deferred tax asset was recognised	57,032	34,102
Income tax expense	-	-

As at 31 December 2020 and 2019, the Bank had estimated unused tax losses of approximately HK$538,970,127 and HK$206,684,424 respectively available for offset against future profits. The unused tax losses can be carried forward and all tax losses do not expire under current tax legislation. No deferred tax assets have been recognised in respect of such losses due to unpredictability of future profit streams.

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10. Leases

This note provides information for leases where the Bank is a lessee.

(i) Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2020	2019
Right-of-use assets		
- Building	2,275	1,058
- Equipment	482	906
	2,757	1,964

	2020	2019
Lease liabilities		
- Current	1,021	1,035
- Non-current	828	981
	1,849	2,016

Additions to the right-of-use assets during the year ended 31 December 2020 was HK$1,955,000 (2019:HK$2,947,000).

(ii) Amounts recognized in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation charge of right-of-use assets	1,163	982
Interest expense (note 5)	62	162
Expense relating to leases of low-value assets (included in operating expenses)	4,960	2,497

The total cash outflow for leases during the year ended 31 December 2020 was HK$2,184,000 (2019:HK$1,092,000).

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11. Balances with central bank

	2020	2019
Balances with central bank	646,128	14,587
Less: expected credit loss allowances	(1)	-
	646,127	14,587

As at 31 December 2020 and 2019, there were no impaired, overdue or rescheduled balances with central bank.

12. Placements with and advances to banks

	2020	2019
Balances with banks	117,787	15,212
Placements with and advances to banks within one month	600,084	745,163
Placements with and advances to banks maturity after one month but less than one year	1,065,000	490,000
Less: expected credit loss allowances	(334)	(92)
	1,782,537	1,250,283

As at 31 December 2020 and 2019, there were no impaired, overdue or rescheduled placements with and advances to banks.

13. Loans and advances to customers

	2020	2019
Gross loans and advances to customers	682,754	-
Less: expected credit loss allowances		
- Stage 1	(7,850)	-
- Stage 2	-	-
- Stage 3	(769)	-
	674,135	-

(All amounts in Hong Kong dollar thousands unless otherwise stated)

14. Investment securities measured at FVOCI

	2020	2019
Debt securities	4,656,962	99,974
Less: expected credit loss allowance	(5,248)	-
	4,651,714	99,974

	2020	2019
Type of issuer		
Sovereign	-	99,974
Banks and other financial institutions	2,784,981	-
Corporates	1,866,733	-
	4,651,714	99,974

15. Intangible assets

	Software	Total
Cost		
At 1 January 2019	-	-
Additions	14,695	14,695
At 31 December 2019 and 1 January 2020	14,695	14,695
Additions	8,184	8,184
At 31 December 2020	22,879	22,879
Accumulated amortization		
At 1 January 2019	-	-
Amortization for the year	898	898
At 31 December 2019 and 1 January 2020	898	898
Amortization for the year	3,383	3,383
At 31 December 2020	4,281	4,281
Net book value at 31 December 2019	13,797	13,797
Net book value at 31 December 2020	18,598	18,598

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16. Fixed assets

	Equipment	Total
Cost		
At 1 January 2019	-	-
Additions	-	-
At 31 December 2019 and 1 January 2020	-	-
Additions	2,458	2,458
At 31 December 2020	2,458	2,458
Accumulated depreciation		
At 1 January 2019	-	-
Depreciation for the year	-	-
At 31 December 2019 and 1 January 2020	-	-
Depreciation for the year	513	513
At 31 December 2020	513	513
Net book value at 31 December 2019	-	-
Net book value at 31 December 2020	1,945	1,945

17. Other assets

	2020	2019
Interest receivable	35,909	3,594
Deposits	16,064	-
Prepaid expenses	9,616	7,011
Right-of-use asset (note 10)	2,757	1,964
Others	21,823	314
Less: expected credit loss allowance	(47)	-
	86,122	12,883

18. Deposits from customers

	2020	2019
Saving deposits	3,909,023	8,638
Time deposits	2,127,557	17,969
	6,036,580	26,607

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19. Other accounts and accruals

	2020	2019
Amounts due to related party (note 23)	130,138	16,036
Accounts payable and accruals	94,306	15,198
Accruals for employee benefit	26,116	19,043
Lease liabilities (note 10)	1,849	2,016
Interest payable	5,832	58
Others	4,976	-
	263,217	52,351

20. Share capital

	2020 Shares	2019 Shares	2020	2019
Ordinary shares				
Fully Paid	2,100,000,000	1,500,000,000	2,100,000	1,500,000

On 8 October 2019, 500,000,000 ordinary shares were issued by the Bank to the parent company at HK$500,000,000 for cash. All the cash was paid up on the date of issuance.

On 16 November 2020, 600,000,000 ordinary shares were issued by the Bank to the parent company at HK$600,000,000 for cash. All the cash was paid up on the date of issuance.

21. Commitments

	2020	2019
Other commitments which are unconditionally cancellable	30,000	-
	30,000	-

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22. Note to cash flow statement

(i) Non-cash investing activities

Non-cash investing activities disclosed in other note is:
- *Acquisition of right-of-use assets – note 10*

(ii) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2020	2019
Cash and cash equivalents	1,565,999	1,264,962
Lease liabilities	(1,849)	(2,016)
Net debt	1,564,150	1,262,946

	2020	2019
Cash and cash equivalents	1,565,999	1,264,962
Gross debt – fixed interest rate	(1,849)	(2,016)
Net debt	1,564,150	1,262,946

	Lease	Cash and cash equivalents	Total
Net debt as at 1 January 2019	-	401,896	401,896
Cash flows	1,092	863,066	864,158
Acquisition – leases	(2,946)	-	(2,946)
Interest expense (note 5(b))	(162)	-	(162)
Net debt as at 31 December 2019 and 1 January 2020	(2,016)	1,264,962	1,262,946
Cash flows	2,184	300,060	302,244
Acquisition – leases	(1,955)	-	(1,955)
Interest expense (note 5(b))	(62)	-	(62)
Foreign exchange adjustments	-	977	977
Net debt as at 31 December 2020	(1,849)	1,565,999	1,564,150

(All amounts in Hong Kong dollar thousands unless otherwise stated)

23. Related party transactions

Save as disclosed elsewhere in the financial statements, the Bank had the following transactions with its related parties during the year.

(i) *Key management personnel compensation*

Transactions with key management personnel have been disclosed below.

	Year ended 31 December 2020	Year ended 31 December 2019
Short-term employee benefits	29,708	20,038
Share-based payment	137	-
	29,845	20,038

(ii) *Transactions with related parties*

The Bank has recharge arrangement with ZhongAn Technologies International Group Limited ("ZATI") which allows the Bank used and occupied certain resources of ZATI, such as designated employees and office premises, to support its business and operation. In connection with this recharge arrangement, ZATI shared certain operating expenses with the Bank and recharged the Bank the operating expenses attributable to the Bank monthly on a cost basis.

During the year ended 31 December 2020, ZATI has allocated and recharged operating expenses including staff and rental expenses of HK$121,222,876 (2019:HK$161,876,362) to the Bank.

	Year ended 31 December 2020	Year ended 31 December 2019
Employee benefit expense	87,462	108,415
Legal and professional fees	336	12,990
Rental expense	12,373	10,063
Others	21,052	30,409
	121,223	161,877
Interest expense	1,827	-

Fellow subsidiaries	Year ended 31 December 2020	Year ended 31 December 2019
Interest expense	4	-

(All amounts in Hong Kong dollar thousands unless otherwise stated)

23. Related party transactions (Continued)

(ii) Transactions with related parties (Continued)

During the year ended 31 December 2020, the Bank has the following transactions with the key management personnel.

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income	4	-
Interest expense	(1,161)	(2)
Operating expenses	-	(25)
	(1,157)	(27)

(iii) Balances with related parties

As at 31 December 2020, the Bank has the following balances with related parties.

ZATI	2020	2019
Deposits from customers	(13,585)	-
Other accounts and accruals	(125,219)	(16,036)
	(138,804)	(16,036)

Fellow subsidiaries	2020	2019
Deposits from customers	(10,139)	-
Other accounts and accruals	(4,919)	-
Other assets	4,265	-
	(10,793)	-

Key management personnel	2020	2019
Deposits from customers	(130,152)	(4,251)
Interest payable	(323)	(2)
Accounts payable and accruals	-	(25)
Loans and advances to customers	2,298	-
Interest receivable	1	-
	(128,176)	(4,278)

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24. Benefit and interest of the Directors of the Bank

During the year, except as disclosed below, no other emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors of the Bank. No consideration was provided to or receivable by third parties for making available directors' services during the year. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities during the year.

No director of the Bank had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Bank's business to which the Bank was or is a party that subsisted at the end of the year or at any time during the year.

Directors' emoluments

The aggregate emoluments paid to or receivable by directors in respect of their services as directors, pursuant to section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap.622G) were set out below:

	Year ended 31 December 2020	Year ended 31 December 2019
Directors' fees	1,500	1,448
Salaries and bonus	5,077	1,377
Contribution to retirement benefits schemes	27	8
Other benefit	55	-
Total	6,659	2,833

25. Dividends

No dividend was paid or proposed for the year ended 31 December 2020 and 31 December 2019.

26. Approval of financial statements

The financial statements were approved by the board of directors on 22 March 2021.