

**ZA BANK LIMITED**

**REPORT OF DIRECTORS AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2024**

**ZA BANK LIMITED**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024**

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## **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 2024.

### **Principal activities**

The Bank is a licensed digital bank authorized under the Banking Ordinance in Hong Kong. The principal activities of the Bank are to provide banking and related financial services in Hong Kong.

### **Business review**

#### Redefining the future of banking

As Hong Kong’s leading digital bank, ZA Bank continues to set new industry benchmarks, driving fintech innovation and transforming the banking experience. With an unwavering focus on scalable and sustainable growth, the Bank has strengthened its market leadership by expanding assets and liabilities while enhancing business quality. In 2024, ZA Bank grew its retail user base to over 800,000—serving more than 13% of Hong Kong’s bankable population—while further significantly narrowing net loss by 42%, a HK\$167 million improvement from the previous year. This sustainable growth marks a major milestone, validating ZA Bank’s business model and reinforcing its commitment to shaping the future of banking with cutting-edge, customer-centric solutions.

#### Record growth and financial strength in 2024

ZA Bank’s relentless focus on quality growth and operational efficiency has delivered an exceptional financial performance. Net interest income soared by 86% year-on-year to nearly HK\$489 million, while net interest margin (NIM) expanded by 47 basis points to 2.41%, driving a sharp rise in profitability. Despite a 2.8% contraction in Hong Kong’s total loan market, ZA Bank outperformed industry trends with a 5.7% increase in loans and advances, underscoring disciplined balance sheet management and strong customer trust. At the same time, operating expenses were reduced by HK\$48 million, reinforcing the Bank’s ability to scale efficiently while maintaining strong financial discipline.

#### Empowering wealth growth

ZA Bank has strengthened its position as a true one-stop digital financial solution, offering seamless access to funds, stocks, crypto, and innovative savings products, alongside tailored banking services that evolve with our customers’ needs. We became Asia’s first licensed bank to offer retail crypto trading with fiat currencies via the ZA Bank App, seamlessly integrating digital assets into everyday banking.

Besides crypto, we expanded our investment services with US stock trading and launched Hong Kong’s first stock rebate programme “StockBack”, giving users more ways to grow their wealth.

Meanwhile, our deposits saw exceptional growth, with customer deposits surging 66% to HK\$19.4 billion and total assets rising 60% to exceed HK\$22 billion. This was driven by innovative savings products like the High-rate Savings Pot and Chill Pot, attracting more customers looking for new ways to grow their savings.

#### The future of banking: Web3 and beyond

ZA Bank is further solidifying its one-stop solutions to business banking, reinforcing its commitment to supporting SMEs and the Web3 ecosystem. We became the first digital bank partner of Global Payments in Hong Kong, launching a new SME financing product to support the community.

ZA Bank has been an active enabler of the Web3 ecosystem, providing banking services to over 200 Web3 businesses and most of the licensed VATPs in Hong Kong. In an industry first, we also became Hong Kong’s first digital bank to offer dedicated reserve banking services for stablecoin issuers, further bridging digital assets with the regulated banking system and pioneering the future of finance.

**REPORT OF DIRECTORS (Continued)**

**Business review (Continued)**

Built on Trust, Recognised Worldwide

ZA Bank is redefining digital banking with cutting-edge fintech innovation and uncompromising security. We have developed and optimised around 20 digital solutions for Regtech, risk management, and cybersecurity, with nearly half built in-house—including a real-time fraud detection system and a back-end anti-fraud management platform. Now in their third generation, our 24/7 risk management and IT security systems have boosted risk control performance by 400% since launch.

Our commitment to excellence has earned global recognition: we were the only Hong Kong company featured in Fortune's Fintech Innovators Asia 2024 in the digital banking category, the first Hong Kong bank named "Rising Star" in the Euromoney Awards for Excellence, and a two-time winner of "Virtual Bank of the Year – Retail Banking" in The Asset Triple A Digital Awards. Our express online business account opening service also secured the "SME Digital Innovation of the Year - Hong Kong" award presented by *Asian Banking & Finance*. Our effort on financial security was honoured by the Hong Kong Police Force with the prestigious "Good Organisation Award", making us the only bank to receive this recognition in 2024 and the first local digital bank ever awarded.

**Results and appropriations**

The results of the Bank for the year are set out in the statement of comprehensive income on page 8.

The directors do not recommend the payment of any dividend.

**Share capital**

The shares issued are used to strengthen the capital adequacy of the bank. Details of the shares issued in the year ended 31 December 2024 are set out in note 22 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

NG Chung Ho (ED) (appointed as Chief Executive on 27 March 2025)

IU Man Chung (ED) – Chief Executive (resigned as ED and ceased as Chief Executive on 27 March 2025)#

OU Jin Yi Hugo (NED)

XIAO Feng (NED)

XU Wei (NED)

ZHANG Shengman (INED)

CHEN Jianghe (INED) (appointed as INED on 27 March 2025)

HUANG Ming Xiang (INED) (ceased as INED on 7 June 2024)\*

LO Kin Ching, Joseph (INED)

ZHU Qi (INED)

#IU Man Chung has stepped down as Chief Executive and Executive Director of the Bank due to personal reason. The Board has no disagreement on the resignation of IU Man Chung.

\*HUANG Ming Xiang has been removed as an INED with effect from 7 June 2024 in accordance with the article 24(f) of the Articles of Association of the Bank that subsequent to a resolution regarding the removal of HUANG Ming Xiang as an INED passed by the Board having considered it was unable to contact him for more than six months since November 2023 and his non-attendance and non-participation at various Board meetings and Board committees' meetings since the fourth quarter of 2023. The Board considered that the cessation of appointment of HUANG Ming Xiang as INED of the Bank would not have any significant adverse effect on the operations of the Company and was of the view that such removal of director was in the interests of the Bank and its shareholder as a whole.

**REPORT OF DIRECTORS (Continued)**

**Directors (Continued)**

There being no provision to the Bank's Articles of Association for retirement by rotation, all existing 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**

ZhongAn Technologies International Group Limited ("ZATI"), the sole shareholder of ZhongAn Financial Services Limited (the "parent company"), and certain subsidiaries of ZATI maintain share schemes or plans which subsisted at the end of the year or at any time during the year, under which eligible participants of the Bank may be granted share options/restricted share units for acquisition of shares of the respective companies 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.

**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.

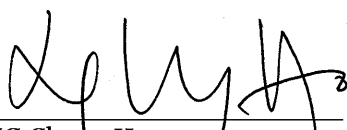
**Permitted indemnity provision**

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



NG Chung Ho  
Director and Chief Executive

Hong Kong, 30 April 2025

## ***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"), which are set out on pages 8 to 68, comprise:

- the statement of financial position as at 31 December 2024;
- 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, comprising material accounting policy information and other explanatory information.

#### *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 2024, 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.

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### **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 for the year ended 31 December 2024 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.

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### **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.

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## ***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**  
Certified Public Accountants

Hong Kong, 30 April 2025

**ZA BANK LIMITED**  
**FINANCIAL STATEMENTS**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2024**

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

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
Interest income	5	978,991	559,247
Interest expense	5	(490,038)	(296,940)
<b>Net interest income</b>		<b>488,953</b>	<b>262,307</b>
Fee and commission income	6,29	150,288	134,474
Fee and commission expense	6	(62,569)	(55,853)
<b>Net fee and commission income</b>		<b>87,719</b>	<b>78,621</b>
Net (loss)/ gain from other financial instruments	7	(39,981)	13,711
Other income		11,284	4,437
Operating expenses	8,29	(599,259)	(647,328)
<b>Operating loss before impairment losses</b>		<b>(51,284)</b>	<b>(288,252)</b>
Credit impairment losses on loans and advances to customers		(183,414)	(102,914)
Credit impairment losses on other financial assets		2,495	(7,910)
<b>Loss before income tax</b>		<b>(232,203)</b>	<b>(399,076)</b>
Income tax	10	-	-
<b>Net loss for the year</b>		<b>(232,203)</b>	<b>(399,076)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
- Changes in the fair value of debt instruments measured at fair value changes through other comprehensive income ("FVOCI"), net of tax		115,317	173,552
<b>Total comprehensive loss for the year</b>		<b>(116,886)</b>	<b>(225,524)</b>

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

**ZA BANK LIMITED**  
**FINANCIAL STATEMENTS**

**STATEMENT OF FINANCIAL POSITION**

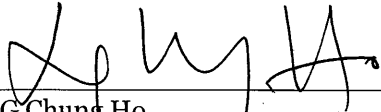
**AS AT 31 DECEMBER 2024**

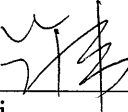
(All amounts in Hong Kong dollar thousands unless otherwise stated)

	Notes	2024	2023
<b>ASSETS</b>			
Cash and balances with banks	12	2,201,264	827,707
Placements with and advances to banks	13	366,782	128,862
Loans and advances to customers	14	5,621,086	5,318,601
Investment securities measured at FVOCI	15	13,943,690	7,473,496
Intangible assets	16	28,203	39,074
Fixed assets	17	415	432
Other assets	18	174,750	141,885
<b>Total assets</b>		<b>22,336,190</b>	<b>13,930,057</b>
<b>LIABILITIES</b>			
Repurchase agreement	19	600,000	-
Deposits from customers	20	19,399,414	11,695,320
Other accounts and accruals	21	293,964	284,596
<b>Total liabilities</b>		<b>20,293,378</b>	<b>11,979,916</b>
<b>EQUITY</b>			
Share capital	22	4,300,000	4,100,000
Reserves		(36,138)	(161,012)
Accumulated losses		(2,221,050)	(1,988,847)
<b>Total equity</b>		<b>2,042,812</b>	<b>1,950,141</b>
<b>Total liabilities and equity</b>		<b>22,336,190</b>	<b>13,930,057</b>

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

The financial statements on pages 8 to 68 were approved by the board of directors on 30 April 2025 and were signed on its behalf.

  
 NG Chung Ho  
 Director and Chief Executive

  
 XU Wei  
 Director

**ZA BANK LIMITED**  
**FINANCIAL STATEMENTS**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2024**

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

	Note	Share capital	Financial assets at FVOCI reserve	Share-based payment reserve	Accumulated losses	Total equity
<b>Balance at 1 January 2023</b>		4,100,000	(365,122)	13,924	(1,589,771)	2,159,031
Issue of ordinary shares	22	-	-	-	-	-
Net loss for the year		-	-	-	(399,076)	(399,076)
Share-based payment expenses	9,23	-	-	16,634	-	16,634
Other comprehensive income						
- Change in the fair value of debt instruments measured at FVOCI, net of tax		-	173,552	-	-	173,552
<b>Balance at 31 December 2023 and 1 January 2024</b>		4,100,000	(191,570)	30,558	(1,988,847)	1,950,141
Issue of ordinary shares	22	200,000	-	-	-	200,000
Net loss for the year		-	-	-	(232,203)	(232,203)
Share-based payment expenses	9,23	-	-	9,557	-	9,557
Other comprehensive income						
- Change in the fair value of debt instruments measured at FVOCI, net of tax		-	115,317	-	-	115,317
<b>Balance at 31 December 2024</b>		<u>4,300,000</u>	<u>(76,253)</u>	<u>40,115</u>	<u>(2,221,050)</u>	<u>2,042,812</u>

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

**ZA BANK LIMITED**  
**FINANCIAL STATEMENTS**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2024**

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

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
<b>OPERATING ACTIVITIES</b>			
Loss before income tax		(232,203)	(399,076)
Adjustment for:			
Depreciation and amortization expense	8	13,686	19,260
Interest income from investment securities measured at FVOCI		(526,780)	(232,630)
Interest expense arising from lease liabilities	11	29	87
Change in expected credit losses		180,919	110,824
Share-based payment expenses	9	9,557	16,634
Net loss /(gain) from other financial instruments		9,992	(8,380)
Change in operating assets and liabilities:			
Decrease in placement with and advances to banks with original maturity beyond 3 months		-	50,577
Increase in other assets		(34,260)	(29,707)
Increase in loans and advances to customer		(485,899)	(540,768)
Increase in repurchase agreement		600,000	-
Increase in deposits from customers		7,704,094	2,523,578
Increase in other accounts and accruals		10,402	9,861
<b>Net cash inflow to operating activities</b>		<b>7,249,537</b>	<b>1,520,260</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities measured at FVOCI		(105,855,561)	(17,656,197)
Proceeds from disposal and maturity of investment securities at FVOCI		99,862,158	16,039,632
Purchase for intangible assets	16	(1,104)	(8,598)
Purchase of fixed assets	17	(387)	(79)
Interest received from investment securities measured at FVOCI		94,976	118,205
<b>Net cash outflow to investing activities</b>		<b>(5,899,918)</b>	<b>(1,507,037)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares	22	200,000	-
Principal and interest elements of lease payments	11	(1,017)	(3,254)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>198,983</b>	<b>(3,254)</b>
Net increase in cash and cash equivalents		1,548,602	9,969
Cash and cash equivalents at the beginning of the financial year		956,584	946,068
Effect of exchange rate changes on cash and cash equivalents		62,863	547
<b>Cash and cash equivalents at end of year</b>		<b>2,568,049</b>	<b>956,584</b>

**ZA BANK LIMITED**  
**FINANCIAL STATEMENTS**

**CASH FLOW STATEMENT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2024**

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

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
<b>Cash and cash equivalents comprise:</b>			
Cash and balances with banks	12	2,201,266	827,708
Placements with and advances to banks with original maturity of 3 months or less	13	366,783	128,876
		<u>2,568,049</u>	<u>956,584</u>
<b>Cashflows from operating activities include:</b>			
Interest paid		(454,177)	(263,052)
Interest received		<u>406,012</u>	<u>309,107</u>

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

**ZA BANK LIMITED**  
**FINANCIAL STATEMENTS**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2024**

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

**1. General information**

The Bank was officially launched on 24 March 2020 with principal activities of providing banking services to its customers. It is incorporated in Hong Kong 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.

The Bank is a wholly-owned subsidiary of ZhongAn Financial Services Limited (the “parent company”). During the period from 1 January 2023 to 14 August 2023, the Bank was a subsidiary of ZhongAn Online P&C Insurance Co., Ltd. (“ZA Online”), incorporated in the People’s Republic of China and listed on the Main Board of the Stock Exchange of Hong Kong. From 14 August 2023, the Bank is a jointly controlled entity of ZA Online and Sinolink Worldwide Holdings Limited, incorporated in Bermuda and listed on the Main Board of the Stock Exchange of Hong Kong.

**2. Summary of material accounting policies**

This note provides a list of the material 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 (“HKFRSs”) 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 HKFRSs 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 amended standard adopted by the Bank*

A number of new or amended standards that are relevant to the Bank and became applicable for the accounting period beginning on 1 January 2024. The Bank did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Non-current liabilities with covenants
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Amendments to HKFRS 16	Lease Liability in Sale and Leaseback



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2024**

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

**2. Summary of material accounting policies (Continued)**

**2.1 Basis of preparation (Continued)**

(iv) *New standards and amendments to standards that have been issued but are not effective:*

		<b>Effective for accounting periods beginning</b>
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
Amendments to HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027

The Hong Kong Institute of Certified Public Accountants has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2024 and which have not been adopted in these financial statements. Amendments to HKAS 21 is not expected to have a material impact on the Bank in the current of future reporting periods and on foreseeable future transactions. The key new standard which is relevant to the Bank is Amendments to HKFRS 9 and HKFRS 7 – Amendment to the Classification and Measurement of Financial Instruments and Amendment to HKFRS 18 – Presentation and Disclosure in Financial Statements.

The HKICPA issued targeted amendments to HKFRS 9 and HKFRS 7 to respond to recent questions arising in practice, and to include new requirements. These amendments:

- clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- add new disclosures for certain instruments with contractual terms that can change cash flows (such as some financial instruments with features linked to the achievement of environment, social and governance targets); and
- update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

The Bank is in the process of assessing the financial and disclosure impact on the adoption of the standard.

HKFRS 18 will replace HKAS 1 Presentation of financial statements, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though HKFRS 18 will not impact the recognition or measurement of items in the financial statements, its impacts on presentation and disclosure are expected to be pervasive, in particular those related to the statement of financial performance and providing management-defined performance measures within the financial statements.

Management is currently assessing the detailed implications of applying the new standard on the financial statements. The Bank will apply the new standard from its mandatory effective date of 1 January 2027. Retrospective application is required, and so the comparative information for the financial year ending 31 December 2026 will be restated in accordance with HKFRS 18.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2024**

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

**2. Summary of material 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 is recognised in the statements of comprehensive income for all financial assets carried at amortised cost (“AC”) and fair value through other comprehensive income, and financial liabilities using the effective interest method. Similar interest income arising from non-derivative financial assets and liabilities carried at fair value through profit or loss are determined using similar method, but excluding their transaction costs. Interest income recognised is calculated based on the gross carrying amount of the financial asset unless it is a purchased or originated credit impaired financial asset, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; or the financial asset is credit-impaired (Stage 3), in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

**2.4 Fee and commission income**

Fees and commissions income is recognized on an accrual basis when the service has been provided to customers. When the terms of the contracts are modified and being substantially different to the original terms, the Bank will assess the modified contract scope, period and transaction price and recognized the fee and commission income according to the new contract terms.

*Cards business related fee income*

Cards business related fee income primarily comprises of interchange fee and various incentives from card company and transaction fee from cardholders which are earned at a point in time when the Bank has fully provided the relevant services to its customers:

**(i) Interchange fee**

For debit card interchange activities, the Bank provides card company with various card transaction handling and payment interchange services (the “Interchange Services”) where it is entitled to an interchange fee for each transaction. The fees entitled by the Bank will be based on the volume of card transactions processed and fee rate prescribed by card company for each type of Interchange Services.

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**2. Summary of material accounting policies (Continued)**

**2.4 Fee and commission income (Continued)**

(ii) Incentive

The Bank has entered into agreements with card company under which the Bank will be entitled to receive incentive fees based on the actual volume of the card transactions processed. Different types of card transactions will entitle the Bank to different amount of incentive fees determined at different charging basis.

The Bank has also entered into additional incentive arrangement with card company to receive incentive fees for different tranche of total card volume achieved over a specified contract period. The Bank recognises the incentive fee over the contract period based on expected total volume achieved (i.e. based on an expected value approach). Please refer to Note 4 for key assumptions and inputs used.

(iii) Other transaction fees from cardholders

The Bank also receives other transaction fees from cardholders in relation to different card transactions processing or settlement services (e.g. currency conversion, cross-border settlement services etc.) it offers to cardholders. These fees are recognised at a point in time when relevant services have been delivered to cardholders.

Prior to 2024, the Bank recognized all the other transaction fees from cardholders in gross under fee and commission income and did not net off the fees with relevant debit card reward programs expenses to cardholders on the ground that such expenses were immaterial.

Starting from 2024, the Bank has net off the other transaction fees derived from cardholders with relevant expenses relating to debit card reward programs to cardholders to the extent the relevant fees and expenses are arising from the same cardholders. Accordingly, the prior year comparatives have been adjusted to conform with current year presentations, details to refer to note 29.

*Agency fee*

The agency fee is recognized at a point in time under transaction-based arrangements when services have been fully provided to customers as an agent, such as broking services. Otherwise, the fee is recognized over time as the Bank continuously fulfils its performance obligation. Any fee received upfront but with relevant performance obligations not yet fulfilled will be recognized under contract liabilities.

*Others*

Other fee income primarily includes loans related service fees and various account and banking services fee. Loan fees for servicing a loan are recognized as fee income. Fees on account and banking services are earned when relevant services are provided to customers. All these fees are earned at point in time.

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**2. Summary of material accounting policies (Continued)**

**2.5 Operating expenses**

Operating expenses consist primarily of employee benefit expense and advertising and promotion expense which are associated with the general operation of the Bank. Accounting policies of employee benefit expense is disclosed in note 2.12. Advertising and promotion expense includes but not limited to costs incurred from promotion, branding, customers acquisition and debit card reward programs to cardholders which are recognized as incurred. Prior to 2024, the Bank recognized all the expenses relating to debit card reward programs to cardholders in gross under operating expenses on the ground that such expenses were immaterial. Starting from 2024, the Bank has net off the expenses relating to debit card reward programs to cardholders with the relevant debit card business related revenue arising from the same cardholders. Accordingly, the prior year comparatives have been adjusted, to conform with current year presentations, details to refer to note 29.

**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.

**2.7 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.

Lease payments are allocated between principal and finance cost. The finance cost 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.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Depreciation are calculated on the straight-line basis over the lease term.

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**2. Summary of material accounting policies (Continued)**

**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) Measurement**

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit and loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

**Debt instruments**

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Bank classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. 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 recognised 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 consolidated statements of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statements of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

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**2. Summary of material accounting policies (Continued)**

**2.8 Financial assets (Continued)**

**(iii) Impairment**

The Bank assesses on a forward looking basis the expected credit losses associated with its balances with banks, placements with and advances to banks, loans and advances to customers, investment securities measured at FVOCI and other assets. 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.

**(iv) Modification of financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value. If the terms are not substantially different, the renegotiation or modification does not result in derecognition, the financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment.

**(v) Derecognition other than on a modification**

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control. The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

- i. has no obligation to make payments unless it collects equivalent amounts from the assets;
- ii. is prohibited from selling or pledging the assets; and
- iii. has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

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**2. Summary of material accounting policies (Continued)**

**2.8 Financial assets (Continued)**

*(vi) Write off*

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

**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.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expired and this is evaluated both qualitatively and quantitatively.

*(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.

**2.10 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.



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**2. Summary of material accounting policies (Continued)**

**2.12 Employee benefit expense (Continued)**

**(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.

**2.13 Share-based payments**

Certain Bank's employees are entitled to take part in an equity-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, which should take into account of the following where applicable:

- Impact of any market performance conditions;
- Impact of any service and non-market performance vesting conditions; and
- 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, with a corresponding adjustment to equity.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

**2.14 Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future losses.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. Summary of material accounting policies (Continued)**

**2.15 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 using the effective interest method.

**2.16 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.

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.

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**2. Summary of material accounting policies (Continued)**

**2.17 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.

**2.18 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.

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**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 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, 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 lines 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 has 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 and Risk Committee ("RC"). 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.

The Board has also established Executive Committee ("EXCO"), which is a management-level committee to review the overall business objectives of the Bank and business strategies and business plans. In addition, senior management also 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, Model Governance Committee ("MGC"), Disciplinary Committee, Technology and Cyber Resilience Committee, Asset & Liability Management Committee ("ALCO"), Regulatory and Financial Crime Compliance Committee, Credit Committee, Risk Management Committee ("RMC"), Wealth Management Committee and Bancassurance Committee. They are responsible for the risk management tasks including reviewing and approving 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.

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**3. Financial risk management (Continued)**

**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 RC, EXCO and relevant management. Its daily enforcement is regularly reviewed by RMC.

Reports of risk management are regularly reported by the respective risk management and function units to the management-level committees, 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.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(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 the Bank, including in the banking book, and both on- and off-balance sheet transactions. The credit risk exposure principally arises from investment in debt securities, lending of personal loan, commercial loan and corporate loan.

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:

- To analyse 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.

The Bank has 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 metrics are 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. 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 seems 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 characteristics to minimize the concentration risk. The Bank identifies credit concentration risk by nature of products, geography, customer, counterparty and industry. The Bank aims to pursue a diversified credit portfolio, with no concentration on a single customer and industry.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

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 balance with banks, placement with and advance to banks, loans and advances to customers including commitments, investment securities measured at FVOCI and other assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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
- Days past due exceeds 30 days
- Credit exhibits a deterioration in repayment ability
- Number of external rating notches downgraded three notches or more
- When the borrower is reported as Special Mention according to the loan classification of the HKMA. The decision to classify the loans is based on the borrower's repayment ability and likelihood of individual counterparties defaulting.

When a financial instrument has objective evidence of impairment, such as default (considered to be default if it is 90 days past due), debt restructuring, inability of obtaining full repayment of principal on due date, bankruptcy of borrowers, it is classified as stage 3 exposure. Discounted cash flows model is conducted to estimate the expected credit loss of such exposures.



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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Calculation of ECL

The Bank has adopted to use the statistical model approach, under which stage 1 and stage 2 ECL is calculated as a function of probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and expected life. To recognize 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 takes 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. It considers both secured portion and unsecured portion of the facility.

EAD is the amount that an entity is exposed to at the time of a loan's default. Financial assets measured at amortized cost, fair value through other comprehensive income, loan commitment and financial guarantee contract are subject to impairment under HKFRS 9. We categorized these exposures into: 1) On-balance sheet financial assets; 2) Undrawn exposures, which can be further separated into i) Irrevocable; ii) Revocable retail; and iii) Revocable non-retail. The value of credit conversion factor ("CCF") reflects the expected amount of undrawn amount to be drawn. In general, the Bank uses CCF of 50%, which is based on internal loss experience and expert judgment. For syndicated loan, due to expert judgement towards its committed nature, a higher CCF is expected and thus CCF of 100% is adopted.

The Bank has established three macroeconomic scenarios for the ECL estimation. In the uncertain macroeconomic outlook, more weight is placed on a downside scenario. The Bank continues to revisit and validate these macroeconomic scenarios in response to the changes of macro-environment. The final ECL is the probability weight-average result of these scenarios discounted to the date of the statement of financial position. The discount rate used is the effective interest rate.

Other assets are measured as either 12 months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

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 has developed three scenarios for macro-economic factors:

Scenario	Underlying assumptions of the scenario
Base	The base scenario is based on a set of macroeconomic forecasts which formulate a “base case” view of the most probable future direction of relevant economic variables.
Good	This scenario is determined by making reference to the “base” scenario and reflects positive uncertainties by incorporating upside variations to the “base” scenario macroeconomic forecasts.
Bad	This scenario is determined by making reference to the “base” scenario and reflects negative uncertainties by incorporating downside variations to the “base” scenario macroeconomic forecasts.

The Bank has considered the current economic performance, the market forecast and the management judgment on the economic outlook and assigned probability weighting to Good, Base and Bad Scenarios:

	31 December 2024	31 December 2023
Good	30%	30%
Base	40%	40%
Bad	30%	30%

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Incorporation of forward-looking information into the ECL models (Continued)

At 31 December 2024

The significant assumptions used for ECL estimations for the retail exposure are as follows:

		<b>2025 Forward- looking (Year end)</b>	<b>5 years' average (2025-2029)</b>
<b>Hong Kong Forecast Factors</b>			
Hong Kong Unemployment Rate (%)	Good	2.59	2.61
	Base	2.77	2.80
	Bad	3.77	3.45
Property Price Index – Private Retail (Base Year: 1999)	Good	451.81	526.37
	Base	429.19	453.80
	Bad	400.40	383.83

The significant assumptions used for ECL estimations for the wholesale exposure are as follows:

		<b>2025 Forward- looking (Year end)</b>	<b>5 years' average (2025-2029)</b>
<b>Hong Kong Forecast Factors</b>			
Real Gross Domestic Product Growth Rate (%)	Good	7.99	5.03
	Base	4.50	2.91
	Bad	-3.99	0.06
Hong Kong Industrial Production: Manufacturing Index (Base Year: 2010)	Good	110.96	121.13
	Base	107.30	112.16
	Bad	96.52	95.56
Change in Hong Kong General Government Balance to GDP Ratio (%)	Good	2.23	5.50
	Base	-1.04	-0.90
	Bad	-5.53	-9.12

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Incorporation of forward-looking information into the ECL models (Continued)

At 31 December 2024 (Continued)

		<b>2025 Forward- looking (Year end) (2025-2029)</b>	<b>5 years' average</b>
<b>Mainland China Forecast Factors</b>			
China Government Expenditure, Total (CNY Billion)	Good	51,387.90	60,914.29
	Base	49,724.74	55,881.75
	Bad	47,791.87	50,532.67
China Unemployment Rate (%)	Good	3.02	3.23
	Base	3.82	3.72
	Bad	4.48	4.21

At 31 December 2023

The significant assumptions used for ECL estimations for the retail exposure are as follows:

		<b>2024 Forward- looking (Year end) (2024-2028)</b>	<b>5 years' average</b>
<b>Hong Kong Forecast Factors</b>			
Hong Kong Unemployment Rate (%)	Good	2.50	2.79
	Base	3.00	3.12
	Bad	4.45	4.01
Property Price Index – Private Retail (Base Year: 1999)	Good	598.80	704.45
	Base	577.71	673.32
	Bad	505.40	601.14

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Incorporation of forward-looking information into the ECL models (Continued)

At 31 December 2023 (Continued)

The significant assumptions used for ECL estimations for the wholesale exposure are as follows:

		<b>2024</b>	<b>5 years'</b>
		<b>Forward-</b>	<b>average</b>
	<b>Scenario</b>	<b>looking</b>	
		<b>(Year end)</b>	<b>(2024-2028)</b>
<b>Hong Kong Forecast Factors</b>			
Real Gross Domestic Product Growth Rate (%)	Good	7.42	3.53
	Base	3.97	2.31
	Bad	-5.80	0.93
Hong Kong Industrial Production: Manufacturing Index (Base Year: 2010)	Good	104.15	104.98
	Base	98.42	97.12
	Bad	82.54	87.31
Change in Hong Kong General Government Balance to GDP Ratio (%)	Good	0.16	1.03
	Base	-0.60	0.18
	Bad	-3.05	-1.64
<b>Mainland China Forecast Factors</b>			
China Government Expenditure, Total (CNY Billion)	Good	29,468.57	36,093.37
	Base	32,522.92	36,446.53
	Bad	33,437.78	35,329.92
China Unemployment Rate (%)	Good	3.66	3.75
	Base	4.05	4.04
	Bad	4.94	4.81

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**3 Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Management Overlay

The Bank has applied management overlay in its ECL estimation to supplement the limitations of existing ECL models which may not be able to fully reflect the obligor specific circumstance and potential credit deterioration of certain loan exposures. As at 31 December 2024, the amount of the management overlay represented approximately 0.05% (2023:0.09%) of the overall loan exposures and 0.01% (2023: Nil) of the overall bond exposures.

Sensitivity analysis

As at 31 December 2024 and 2023, sensitivity analysis is conducted for the impact of impairment allowance results against the forward-looking macroeconomic variables on the basis that (i) Good scenario weight increases by 10% and Base scenario weight is lowered by 10%; (ii) Bad scenario weight increases by 10% and Base scenario weight is lowered by 10%; as follows:

	<b>2024</b>	<b>2023</b>
Good +10% and base -10%	(823)	(827)
Bad +10% and base -10%	3,777	3,948

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. Three approaches were developed to capture the specific risk characteristics of products:

Exposure other than retail loans:

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.

- Z risk factor approach for treasury investments, corporate loans and commercial loans: Due to insufficient internal default data, the Bank built the PD model using external credit data i.e. transition matrix for treasury, corporate portfolios and commercial loans.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Credit Risk Grading (Continued)

Retail loans:

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

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

Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the years ended 31 December 2024 and 2023 were approximately HK\$67,408,000 and HK\$78,906,000 respectively. The Bank still seeks to recover amounts it is legally owned in full, but which have been partially written off due to no reasonable expectation of full recovery.

Credit risk exposure

As at 31 December 2024 and 2023, credit risk arises mainly from balance with banks, placement with and advance to bank, loans and advances to customers including commitments, investment securities measured at FVOCI, and other assets.

*Maximum exposure to credit risk before collateral held or other credit enhancements*

The following tables contain analysis of the credit risk exposure of financial instruments. The gross carrying amount/exposure of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.



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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Credit risk exposure (Continued)

*Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)*

Financial assets subject to impairment

At 31 December 2024

	<b>Gross carrying amount/exposure</b>					
	<b>Pass</b>	<b>Special mention</b>	<b>Sub- standard or below</b>	<b>Total</b>	<b>ECL allowance</b>	<b>Net</b>
Loans and advances to customers						
-Stage 1	5,076,451	-	-	5,076,451	(58,123)	5,018,328
-Stage 2	-	293,448	-	293,448	(11,194)	282,254
-Stage 3	-	117,997	372,854	490,851	(170,347)	320,504
Investment securities measured at FVOCI						
-Stage 1	13,937,771	-	-	13,937,771	(2,245)	13,935,526
-Stage 2	55,480	30,168	-	85,648	(1,231)	84,417
-Stage 3	-	-	-	-	-	-
Cash and amounts due from banks						
-Stage 1	2,567,954	-	-	2,567,954	(3)	2,567,951
-Stage 2	-	-	-	-	-	-
-Stage 3	-	-	-	-	-	-
Credit commitments						
-Stage 1	541,091	-	-	541,091	(1,375)	539,716
-Stage 2	-	653	-	653	(46)	607
-Stage 3	-	-	-	-	-	-
Other assets						
-Stage 1	165,461	-	-	165,461	(29)	165,432
-Stage 2	-	-	-	-	-	-
-Stage 3	-	-	-	-	-	-
<b>Total</b>	<b>22,344,208</b>	<b>442,266</b>	<b>372,854</b>	<b>23,159,328</b>	<b>(244,593)</b>	<b>22,914,735</b>

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Credit risk exposure (Continued)

*Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)*

Financial assets subject to impairment (Continued)

At 31 December 2023

	Gross carrying amount/exposure					
	Pass	Special mention	Sub- standard or below	Total	ECL allowance	Net
Loans and advances to customers						
-Stage 1	5,077,570	-	-	5,077,570	(56,694)	5,020,876
-Stage 2	-	255,232	-	255,232	(12,101)	243,131
-Stage 3	-	-	97,523	97,523	(42,929)	54,594
Investment securities measured at FVOCI						
-Stage 1	7,551,225	-	-	7,551,225	(4,606)	7,546,619
-Stage 2	80,237	-	-	80,237	(1,334)	78,903
-Stage 3	-	-	-	-	-	-
Cash and amounts due from banks						
-Stage 1	956,489	-	-	956,489	(15)	956,474
-Stage 2	-	-	-	-	-	-
-Stage 3	-	-	-	-	-	-
Credit commitments						
-Stage 1	386,230	-	-	386,230	(1,452)	384,778
-Stage 2	-	115	-	115	(17)	98
-Stage 3	-	-	173	173	-	173
Other assets						
-Stage 1	126,088	-	-	126,088	-	126,088
-Stage 2	-	-	-	-	-	-
-Stage 3	-	-	-	-	-	-
<b>Total</b>	<b>14,177,839</b>	<b>255,347</b>	<b>97,696</b>	<b>14,530,882</b>	<b>(119,148)</b>	<b>14,411,734</b>

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these methods is the taking of collateral for funds advanced. The Bank has internal guidelines on the acceptability of specific classes of collateral for credit risk mitigation. Guideline is in place to govern the management of collateral acceptable by the Bank and the guideline is reviewed periodically.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over properties;
- Charges over land; and
- Charges over bank deposits.

In addition to the above, the Bank will also seek for guarantee where appropriate. To minimise credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances which are partially secured or unsecured.

Impaired loans and advances are partially covered by collateral. For the exposures of balances with central banks, placements with and advances to banks and investment securities measured at FVOCI, it is typically unsecured and uncollateralized. For loans and advances to customers as of 31 December 2024 and 31 December 2023, 47.7% and 50.2% of the exposures are covered by collateral and other security, respectively.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

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

Loans and advances to customers

	<b>Stage 1 12-month ECL</b>	<b>Stage 2 Lifetime ECL</b>	<b>Stage 3 Lifetime ECL</b>	<b>Total</b>
Loss allowance as at 1 January 2023	35,383	5,078	6,588	47,049
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(742)	742	-	-
Transfer to Stage 3	(39,153)	(1,904)	41,057	-
Changes in ECL from financial assets originated, purchased, derecognized and model parameters change	61,206	8,185	33,524	102,915
Write-offs	-	-	(38,933)	(38,933)
Recoveries	-	-	693	693
Loss allowance as at 31 December 2023 and 1 January 2024	56,694	12,101	42,929	111,724
Transfer to Stage 1	92	(84)	(8)	-
Transfer to Stage 2	(11,173)	11,173	-	-
Transfer to Stage 3	(128,489)	(8,944)	137,433	-
Changes in ECL from financial assets originated, purchased, derecognized and model parameters change	140,999	(3,052)	55,198	193,145
Write-offs	-	-	(67,408)	(67,408)
Recoveries	-	-	2,203	2,203
Loss allowance as at 31 December 2024	58,123	11,194	170,347	239,664

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

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

Treasury investments

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2023	6,437	378	31,190	38,005
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(51)	51	-	-
Transfer to Stage 3	-	-	-	-
Changes in ECL from financial assets originated, purchased, derecognized and model parameters change	(1,780)	905	8,783	7,908
Write-offs	-	-	(39,973)	(39,973)
Recoveries	-	-	-	-
Loss allowance as at 31 December 2023 and 1 January 2024	4,606	1,334	-	5,940
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(100)	100	-	-
Transfer to Stage 3	-	-	-	-
Changes in ECL from financial assets originated, purchased, derecognized and model parameters change	(2,261)	(203)	-	(2,464)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Loss allowance as at 31 December 2024	2,245	1,231	-	3,476

For the purpose of this disclosure, ECL of financial assets measured at FVOCI is included in loss allowance.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

The following tables explain the changes in the gross exposure (gross carrying amount or exposure) between the beginning and the end of the annual period due to these factors:

Loans and advances to customers

	<b>Stage 1 Gross exposure</b>	<b>Stage 2 Gross exposure</b>	<b>Stage 3 Gross exposure</b>	<b>Total</b>
As at 1 January 2023	4,777,951	143,361	6,588	4,927,900
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(129,869)	129,869	-	-
Transfer to Stage 3	(125,404)	(10,098)	135,502	-
Net change in exposures	554,892	(7,900)	(5,634)	541,358
Write-offs	-	-	(38,933)	(38,933)
As at 31 December 2023 and 1 January 2024	5,077,570	255,232	97,523	5,430,325
Transfer to Stage 1	1,273	(1,088)	(185)	-
Transfer to Stage 2	(299,185)	299,185	-	-
Transfer to Stage 3	(385,945)	(39,021)	424,966	-
Net change in exposures	682,738	(220,860)	35,955	497,833
Write-offs	-	-	(67,408)	(67,408)
As at 31 December 2024	5,076,451	293,448	490,851	5,860,750

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(i) Credit risk (Continued)**

The following tables explain the changes in the gross exposure (gross carrying amount or exposure) between the beginning and the end of the annual period due to these factors:

Treasury investments

	Stage 1 Gross exposure	Stage 2 Gross exposure	Stage 3 Gross exposure	Total
As at 1 January 2023	5,841,710	53,232	38,988	5,933,930
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(28,564)	28,564	-	-
Transfer to Stage 3	-	-	-	-
Net change in exposures	1,738,079	(1,559)	985	1,737,505
Write-offs	-	-	(39,973)	(39,973)
As at 31 December 2023 and 1 January 2024	7,551,225	80,237	-	7,631,462
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(43,198)	43,198	-	-
Transfer to Stage 3	-	-	-	-
Net change in exposures	6,429,744	(37,787)	-	6,391,957
Write-offs	-	-	-	-
As at 31 December 2024	13,937,771	85,648	-	14,023,419

The management considers the loss allowance of credit commitments is insignificant. Cash and amounts due from banks and other financial institutions and other assets are classified in Stage 1 with no stage transition during the year.

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**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.

The Bank aims to maintain a diversified and stable funding sources with an appropriate mix of liabilities including customer deposits. Appropriate amount of high-quality liquid assets is held in order to obtain funding and the sources of liquefiable assets is diversified 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 ("SPM") "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 RMC is set up to provide guidance on the Bank's liquidity risk related activities, reviewing the liquidity risk profile and risk appetite of the Bank. The ALCO is responsible for reviewing relevant liquidity reports regularly, reviewing changes to liquidity profile, 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. The MGC is set up to review the material changes to model and assumptions.

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 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.



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**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, liquidity risk reporting for senior management review and compiling regulatory reports of liquidity position of the Bank. Risk Management Department is responsible for measuring and monitoring liquidity risk and advising ALCO in establishing limits and indicator.

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, RMC, RC 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 Board 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.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(ii) Liquidity risk (Continued)**

Management of liquidity risk (Continued)

*Maturities of financial liabilities*

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

Remaining contractual maturities of financial liabilities	On demand to up to 6 months	More than 6 months but up to one year	More than one year	Total contractual cash flows	Carrying amount
At 31 December 2024					
Repurchase agreement	600,000	-	-	600,000	600,000
Deposit from customers	18,843,174	616,303	-	19,459,477	19,399,414
Other accounts and accruals	289,173	-	-	289,173	289,173
Lease liabilities	508	508	847	1,863	1,842
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	19,732,855	616,811	847	20,350,513	20,290,429
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2023					
Deposit from customers	11,643,603	87,572	-	11,731,175	11,695,320
Other accounts and accruals	262,542	-	-	262,542	262,542
Lease liabilities	508	508	1,863	2,879	2,830
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	11,906,653	88,080	1,863	11,996,596	11,960,692
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(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 Investment Management 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 and reviewed, at least annually and monitored by the Risk Management Department in conjunction with the Treasury Department. Price risk in transactions and open positions is monitored by the risk limits established.

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 Management Department which in turn reports to the RMC. Also, ALCO is set up and responsible for reviewing the relevant market risk metrics.

The Bank timely identifies, measures, monitors and controls the market risk of the Bank. All transactions are captured for market risk measurements. Reports regarding market risk limits are produced and reviewed regularly.

**(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 2024		31 December 2023	
	RMB HK\$'000	USD HK\$'000	RMB HK\$'000	USD HK\$'000
<b>Assets</b>				
Cash and balances with banks	69,136	217,305	44,188	54,815
Placements with and advances to banks	26,527	-	128,876	-
Loans and advances to customers	-	32,439	-	48,666
Investment securities measured at FVOCI	10,946	8,844,335	22,571	5,699,346
Other assets	1,486	110,146	1,218	95,992
<b>Liabilities</b>				
Deposits from customers	108,332	2,895,198	194,767	857,654
Other accounts and accruals	1,251	24,960	2,825	11,972

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(iii) Market risk (Continued)**

*(a) Foreign exchange risk (Continued)*

Sensitivity

The Bank's functional currency is Hong Kong dollar ("HKD"). The Bank is exposed to foreign currency risk through certain transactions that are predominately denominated in USD. As the HKD is pegged to the USD, the Bank considers the risk of movements in exchange rates between the HKD and the USD to be mostly within 1% and the net impact to loss before tax and equity would be +/-HK\$62,841,000.

The Bank is exposed to RMB and no sensitivity analysis is prepared as the management considered that the effect is insignificant due to the insignificant net position.

*(b) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank's financial assets and liabilities exposed to interest rate risk primarily are balance with banks, placement with and advance to banks, loans and advances to customers, investment securities measured at FVOCI, repurchase agreements and deposits from customers.

The below assumed changes in interest rates are considered to be reasonably possible based on the current market conditions and management's assessment on a possible change in interest rate over the next twelve-month period.

Sensitivity

As at 31 December 2024 and 2023, if the interest rates of the Bank's interest rate sensitive assets and liabilities had been increased/decreased by 50 basis points at the end of the year, the associated effects driven by the interest rate sensitive assets and liabilities from these changes will stay within -/+8% of loss before tax and within -/+3% of equity of the Bank respectively for both years.

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**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.

At 31 December 2024	Level 2	Total
Investment securities measured at FVOCI		
- Debt securities	13,943,690	13,943,690
	<u>13,943,690</u>	<u>13,943,690</u>
At 31 December 2023		
Investment securities measured at FVOCI		
- Debt securities	7,473,496	7,473,496
	<u>7,473,496</u>	<u>7,473,496</u>

There were no significant transfers of financial assets or liabilities between different levels of 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. Independent price verification is performed by Risk Management Department.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter debt securities) is determined using non-public quoted price or 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 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 or repricing of variable rate instruments.

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**3. Financial risk management (Continued)**

**3.1 Financial risk factors (Continued)**

**(v) Financial instruments by category**

The Bank's financial instruments include the following:

	2024	2023
Financial assets at AC		
- Cash and balances with banks	2,201,264	827,707
- Placements with and advances to banks	366,782	128,862
- Loans and advances to customers	5,621,086	5,318,601
- Other assets	165,461	126,088
Financial assets at FVOCI		
- Investment securities measured at FVOCI	13,943,690	7,473,496
	<u>22,298,283</u>	<u>13,874,754</u>
Financial liabilities at AC		
- Repurchase agreement	600,000	-
- Deposits from customers	19,399,414	11,695,320
- Other accounts and accruals	291,015	265,372
	<u>20,290,429</u>	<u>11,960,692</u>

**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 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 manages its share capital and other components of equity as its capital.

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 ("ALM") 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.

The Bank has complied with the statutory capital requirements imposed by the HKMA throughout 2024 and 2023.

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**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.

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.

Incentives

The Bank has entered into an agreement with business partner to receive incentive fees for different tranche of card transaction volume achieved over a specified contract period. The card transaction volume is estimated based on assumptions in growth rate of number of customers, active card users and growth in card spending volume under different scenarios. The Bank then estimated the expected total cumulative card transaction volume over the contract period by probability weighting the outcomes from the different scenarios.

The Bank uses judgement in making these assumptions and selecting the inputs to calculate the anticipated card transaction volume, based on existing and historical data about the Bank's client base, card usage patterns and the CPI growth rate.

The Bank re-assesses the total expected cumulative card transaction volume to be achieved over the contract period at the end of each reporting year based on the latest performance results and expectation of future business and economic growth.

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**5. Net interest income**

**(a) Interest income**

	Year ended 31 December 2024	Year ended 31 December 2023
Interest income arising from:		
- financial assets measured at AC	452,211	326,617
- financial assets measured at FVOCI	526,780	232,630
	<u>978,991</u>	<u>559,247</u>

**(b) Interest expense**

	Year ended 31 December 2024	Year ended 31 December 2023
Interest expense arising from:		
- financial liabilities measured at AC	490,009	296,853
- lease liabilities (note 11)	29	87
	<u>490,038</u>	<u>296,940</u>

**6. Net fee and commission income**

	Year ended 31 December 2024	Year ended 31 December 2023
Cards	121,174	109,101
Loan	10,405	6,907
Agency services	9,663	12,856
Others	9,046	5,610
	<u>150,288</u>	<u>134,474</u>
Fee and commission income	150,288	134,474
Less: fee and commission expense		
- processing and handling fee	(62,569)	(55,853)
	<u>(62,569)</u>	<u>(55,853)</u>
Net fee and commission income	<u>87,719</u>	<u>78,621</u>

**7. Net (loss)/gain from other financial instruments**

	Year ended 31 December 2024	Year ended 31 December 2023
Net (loss)/gain from disposal of investment securities at FVOCI	(9,992)	469
Exchange (loss)/gain	(29,989)	13,242
	<u>(39,981)</u>	<u>13,711</u>



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**8. Operating expenses**

	Year ended 31 December 2024	Year ended 31 December 2023
Employee benefit expense (note 9)	391,781	427,147
Advertising and promotion expense	63,385	61,345
Software and IT equipment	53,304	61,335
Legal and professional fees	21,971	20,696
Rental expense	20,363	17,209
Service fee	10,604	9,790
Depreciation and amortization expense	13,686	19,260
Auditors' remuneration		
- Audit services	2,054	1,935
- Audit related services	1,015	976
Administrative expenses and others	21,096	27,635
	<u>599,259</u>	<u>647,328</u>

In addition to the professional service fee for audit related services, other professional services fee to PricewaterhouseCoopers and its network companies amount to HK\$4.1 million during the year (2023:HK\$2.7 million). These are included in legal and professional fees.

**9. Employee benefit expense (including director's emolument)**

	Year ended 31 December 2024	Year ended 31 December 2023
Salaries, staff welfare and insurance cost	378,747	407,414
Pension costs – defined contribution plans	3,477	3,099
Share-based payments	9,557	16,634
	<u>391,781</u>	<u>427,147</u>

**10. Income tax**

Hong Kong profits tax has been provided at the effective rate of 16.5% (2023: 16.5%) on the estimated assessable loss arising in Hong Kong during the year.

**(a) Income tax expense**

	Year ended 31 December 2024	Year ended 31 December 2023
Total current tax expense	<u>-</u>	<u>-</u>

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**10. Income tax (Continued)**

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

	Year ended 31 December 2024	Year ended 31 December 2023
Loss before income tax	(232,203)	(399,076)
Tax at the Hong Kong tax rates of 16.5%	(38,313)	(65,847)
Income not subject to tax	(26,590)	(5,428)
Expense not deductible for tax purpose	51,899	12,848
Unused tax losses for which no deferred tax asset was recognised	13,004	58,427
Income tax expense	-	-

**(c) Deferred income tax**

The movement in net deferred income tax liabilities/(assets) for each of the years are as follow:

	Accelerated tax depreciation/ amortisation	Tax losses	Provision	Total
As at 1 January 2023	3,732	-	(3,732)	-
Charged/(credited) to statements of comprehensive income	895	-	(895)	-
As at 31 December 2023 and 1 January 2024	4,627	-	(4,627)	-
Charged/(credited) to statements of comprehensive income	(273)	-	273	-
As at 31 December 2024	4,354	-	(4,354)	-

As at 31 December 2024 and 2023, the Bank had estimated unused tax losses of approximately HK\$1,958,272,960 and HK\$1,879,460,771 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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**11. 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:

	2024	2023
Right-of-use assets		
- Building	2,506	3,872
	<u>2,506</u>	<u>3,872</u>
	2024	2023
Lease liabilities		
- Current	1,000	988
- Non-current	842	1,842
	<u>1,842</u>	<u>2,830</u>

*(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 2024	Year ended 31 December 2023
Depreciation charge of right-of-use assets	1,367	3,559
Interest expense (note (5b))	29	87

*(iii) Supplementary information*

	Year ended 31 December 2024	Year ended 31 December 2023
Additions to the right-of-use assets	-	689
Total cash outflow for leases	1,017	3,254

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**12. Cash and balances with banks**

	2024	2023
Cash on hand	95	95
Balances with central bank	1,870,931	713,637
Balances with other banks	330,240	113,976
Less: expected credit loss allowances – stage 1	(2)	(1)
	<u>2,201,264</u>	<u>827,707</u>

As at 31 December 2024 and 2023, there were no impaired, overdue or rescheduled balances with bank.

**13. Placements with and advances to banks**

	2024	2023
Placements with and advances to banks maturing within one month	366,783	128,876
Less: expected credit loss allowances – stage 1	(1)	(14)
	<u>366,782</u>	<u>128,862</u>

As at 31 December 2024 and 2023, there were no impaired, overdue or rescheduled placements with and advances to banks.

**14. Loans and advances to customers**

	2024	2023
Gross loans and advances to customers	5,860,750	5,430,325
Less: expected credit loss allowances		
- Stage 1	(58,123)	(56,694)
- Stage 2	(11,194)	(12,101)
- Stage 3	(170,347)	(42,929)
	<u>5,621,086</u>	<u>5,318,601</u>

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**15. Investment securities measured at FVOCI**

	2024	2023
Debt securities	13,943,690	7,473,496
	2024	2023
Type of issuer		
- Sovereign	5,591,474	1,012,818
- Banks and other financial institutions	6,931,739	4,706,001
- Corporates	1,420,477	1,754,677
	13,943,690	7,473,496

**16. Intangible assets**

	Software	Total
Cost		
At 1 January 2023	61,730	61,730
Additions	8,598	8,598
Exchange differences	(18)	(18)
At 31 December 2023 and 1 January 2024	70,310	70,310
Additions	1,104	1,104
Exchange differences	(93)	(93)
At 31 December 2024	71,321	71,321
Accumulated amortization		
At 1 January 2023	16,431	16,431
Amortization for the year	14,802	14,802
Exchange differences	3	3
At 31 December 2023 and 1 January 2024	31,236	31,236
Amortization for the year	11,915	11,915
Exchange differences	(33)	(33)
At 31 December 2024	43,118	43,118
Net book value at 31 December 2023	39,074	39,074
Net book value at 31 December 2024	28,203	28,203

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**17. Fixed assets**

	Equipment	Total
Cost		
At 1 January 2023	6,399	6,399
Additions	79	79
	<hr/>	<hr/>
At 31 December 2023 and 1 January 2024	6,478	6,478
Additions	387	387
	<hr/>	<hr/>
At 31 December 2024	6,865	6,865
	<hr/>	<hr/>
Accumulated depreciation		
At 1 January 2023	5,147	5,147
Depreciation for the year	899	899
	<hr/>	<hr/>
At 31 December 2023 and 1 January 2024	6,046	6,046
Depreciation for the year	404	404
	<hr/>	<hr/>
At 31 December 2024	6,450	6,450
	<hr/>	<hr/>
Net book value at 31 December 2023	432	432
	<hr/>	<hr/>
Net book value at 31 December 2024	415	415
	<hr/>	<hr/>

**18. Other assets**

	2024	2023
Deposits	119,834	92,080
Receivable from card business	28,622	20,270
Receivable from foreign exchange transaction	8,570	8,696
Prepaid expenses	6,812	11,925
Right-of-use assets (note 11)	2,506	3,872
Others	8,435	5,042
	<hr/>	<hr/>
	174,779	141,885
Less: expected credit loss allowances		
Stage 1	(29)	-
	<hr/>	<hr/>
	174,750	141,885
	<hr/>	<hr/>

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**19. Repurchase agreement**

The balance represents short term liquidity facility arrangements entered by the Bank for inter-bank payment settlement. Under these arrangements, the Bank places its holding of investment securities measured at FVOCI as collateral in exchange for liquidity funding. As at 31 December 2024, the amount of such investment securities pledged as collateral amount to HK\$601 million.

**20. Deposits from customers**

	2024	2023
Saving deposits	6,786,969	3,607,482
Time deposits	12,612,445	8,087,838
	<u>19,399,414</u>	<u>11,695,320</u>

**21. Other accounts and accruals**

	2024	2023
Accounts payable and accruals	177,740	168,317
Amounts due to related parties (note 26)	78,857	72,477
Deferred revenue	27	16,256
Accruals for employee benefit	34,077	23,249
Lease liabilities (note 11)	1,842	2,830
Others	1,421	1,467
	<u>293,964</u>	<u>284,596</u>

**22. Share capital**

	2024 Number of Shares	2023 Number of Shares	2024 HK\$'000	2023 HK\$'000
Ordinary shares Fully Paid	4,300,000,000	4,100,000,000	4,300,000	4,100,000

On 12 August 2024, the Bank issued 200,000,000 ordinary shares, to the parent company at HK\$200,000,000 for cash. All the cash was paid up on the date of issuance.

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**23. Share-based payments**

**(i) Share Option Schemes**

The shareholders of the ZA Online has approved and adopted the ZhongAn Technologies International Group Limited ("ZATI") share option scheme (the "Scheme") at the extraordinary general meeting held on 29 December 2020. The purpose for the Scheme is to enable ZATI, the intermediate holding company, to grant share options to its eligible participants, including eligible participants of the Bank (the "Bank Grantees"), to acquire shares of ZATI.

The board of directors of ZATI (or through its administration committee) shall determine the exercise price for the share option with reference to the respective net asset value per underlying share of ZATI at the time of grant.

The vesting of the share options under the Scheme shall be subject to the fulfilment of all terms and conditions for the grant of such share options made to the Bank Grantees as set out in the relevant offer letter provided that (a) the grantee shall be continuously employed through the vesting date, the awarded share options shall vest in accordance with the vesting schedule as stipulated in the relevant offer in the offer letter; and (b) other conditions (if any) as determined by the respective board of directors of ZATI in its absolute discretion.

The maximum aggregate number of shares of ZATI which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme must not exceed 10% of the issued share capital of ZATI ("Scheme Limit") as at the adoption date of the Scheme, subject to adjustment in the event of specified capitalization events from time to time as described in the Scheme.

The Scheme shall be valid and effective for a period of 10 years commencing from the adoption date.

On 31 December 2020, ZATI granted 23,400,900 share options to the Bank Grantees (the "First Batch"). On 25 June 2021, ZATI granted 4,300,000 share options to the Bank Grantees (the "Second Batch"). On 20 January 2022, ZATI granted 2,500,000 share options to the Bank Grantees (the "Third Batch"). On 1 June 2023, ZATI granted 3,900,000 share options to the Bank Grantees (the "Fourth Batch"). On 1 June 2024, ZATI granted 4,250,000 share options to the Bank Grantees (the "Fifth Batch"). On 1 December 2024, ZATI granted 600,000 share options to the Bank Grantees (the "Six Batch").



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**23. Share-based payments (Continued)**

(i) Share Option Schemes (Continued)

Set out below are summaries of options granted under the plan and outstanding:

	<b>2024</b>		<b>2023</b>	
	<b>Average exercise price per share option HK\$</b>	<b>Number of options</b>	<b>Average exercise price per share option HK\$</b>	<b>Number of options</b>
As at 1 January	1.39	16,882,000	1.36	20,364,000
Granted during the year	1.50	4,850,000	1.50	3,900,000
Exercised during the year	-	-	-	-
Forfeited during the year	1.50	(800,000)	1.37	(7,382,000)
As at 31 December	1.41	20,932,000	1.39	16,882,000
Vested and exercisable as at 31 December	1.36	13,188,250	1.35	9,373,388

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant Date	Expiry Date	Exercise Price	31 December 2024	31 December 2023
31 December 2020	30 December 2030	HK\$1.34	10,282,000	10,282,000
25 June 2021	24 June 2031	HK\$1.34	1,600,000	1,600,000
20 January 2022	19 January 2032	HK\$1.50	2,500,000	2,500,000
1 June 2023	31 May 2033	HK\$1.50	1,900,000	2,500,000
1 June 2024	31 May 2034	HK\$1.50	4,050,000	-
1 December 2024	30 Nov 2034	HK\$1.50	600,000	-
			20,932,000	16,882,000

Weighted average remaining contractual life of options  
outstanding at end of year

7.16 years

7.57 years

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**23. Share-based payments (Continued)**

(i) Share Option Schemes (Continued)

Based on fair value of the underlying shares, the directors have used binominal pricing model to determine the fair value of the share options as of the grant date.

First Batch key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	26.81
Risk-free interest rate (%)	0.54
Life of options (in years)	10
Estimate share price at grant date according to sum-of-the-parts approach (in HKD)	0.71
Exercise price (in HKD)	1.34

Second Batch key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	39.62
Risk-free interest rate (%)	1.12
Life of options (in years)	10
Estimate share price at grant date according to sum-of-the-parts approach (in HKD)	1.53
Exercise price (in HKD)	1.34

Third Batch key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	42.57
Risk-free interest rate (%)	1.62
Life of options (in years)	10
Estimate share price at grant date according to sum-of-the-parts approach (in HKD)	4.56
Exercise price (in HKD)	1.50

Fourth Batch key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	44.9
Risk-free interest rate (%)	3.4
Life of options (in years)	10
Estimate share price at grant date according to sum-of-the-parts approach (in HKD)	4.40
Exercise price (in HKD)	1.50

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**23. Share-based payments (Continued)**

(i) Share Option Schemes (Continued)

Fifth Batch key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	40.49
Risk-free interest rate (%)	3.48
Life of options (in years)	10
Estimate share price at grant date according to sum-of-the-parts approach (in HKD)	2.21
Exercise price (in HKD)	1.50

Sixth Batch key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	41.09
Risk-free interest rate (%)	3.33
Life of options (in years)	10
Estimate share price at grant date according to sum-of-the-parts approach (in HKD)	2.65
Exercise price (in HKD)	1.50

(ii) Restricted Share Unit Schemes

On 15 September 2020, ZATI adopted a restricted share unit scheme (the "RSU Scheme"). The purpose for the RSU scheme is to enable ZATI to grant restricted shares units ("RSUs") of ZATI to its eligible participants, including the eligible participants of the Bank (the "Bank RSU Grantees"), as incentives or rewards for their contribution to the growth of the ZATI and to provide ZATI with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants of the RSU Scheme.

The board of directors of ZATI (or through its administration committee) shall determine the consideration of the RSUs ("Grant Price") at the time of grant.

The vesting of the RSUs under the RSU Scheme shall be subject to the fulfillment of all terms and conditions for the grant of such RSUs made to the Bank RSU Grantees as set out in the relevant offer letter provided that (a) the grantee shall be continuously employed through the vesting date, the awarded RSUs shall vest in accordance with the vesting schedule as stipulated in the relevant offer letter; and (b) other conditions (if any) as determined by the respective board of directors of ZATI in its absolute discretion.

The maximum aggregate number of shares of the ZATI which may be allotted and issued under the RSU Scheme must not exceed 10% of the issued share capital of ZATI ("RSU Scheme Limit") as at the adoption date of the RSU Scheme, subject to adjustment in the event of specified capitalization events from time to time as described in the RSU Scheme.

The RSU Scheme shall be valid and effective for a period of 10 years commencing from the adoption date of the RSU Scheme.

On 8 April 2022, ZATI granted 10,700,000 RSUs to the Bank RSU Grantees ("First Batch RSU"). On 1 December 2022, ZATI granted 3,550,000 RSUs to the Bank RSU Grantees ("Second Batch RSU").

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**23. Share-based payments (Continued)**

(ii) Restricted Share Unit Schemes (Continued)

Set out below are summaries of RSUs granted under the plan and outstanding:

	Average grant price per RSUs HK\$	Number of RSUs
As at 1 January 2023	1.50	13,300,000
Granted during the year	-	-
Exercised during the year	-	-
Forfeited during the year	1.50	(1,600,000)
As at 31 December 2023 and 1 January 2024	1.50	11,700,000
Granted during the year	-	-
Exercised during the year	-	-
Forfeited during the year	1.50	(1,200,000)
As at 31 December 2024	1.50	10,500,000
Vested and exercisable as at 31 December 2024	1.50	5,250,000
Vested and exercisable as at 31 December 2023	1.50	2,925,000

RSUs outstanding at the end of the year have the following expiry date and exercise prices:

Grant Date	Expiry Date	Grant Price	31 December 2024	31 December 2023
8 April 2022	7 April 2032	HK\$1.50	7,350,000	8,250,000
1 December 2022	30 November 2032	HK\$1.50	3,150,000	3,450,000
			10,500,000	11,700,000

Weighted average remaining contractual life of RSUs outstanding at end of year	7.47 years	8.47 years
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Based on fair value of the underlying shares, the directors have used binominal pricing model to determine the fair value of the RSUs as of the grant date.

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**23. Share-based payments (Continued)**

(ii) Restricted Share Unit Schemes (Continued)

First Batch RSU key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	41.63
Risk-free interest rate (%)	2.48
Life of RSUs (in years)	10
Estimate RSU price at grant date according to sum-of-the-parts approach (in HKD)	3.29
Grant price (in HKD)	1.50

Second Batch RSU key assumptions are set out as below:

Dividend rate (%)	0.00
Volatility (%)	43.32
Risk-free interest rate (%)	3.45
Life of RSUs (in years)	10
Estimate RSU price at grant date according to sum-of-the-parts approach (in HKD)	5.15
Grant price (in HKD)	1.50

The total expenses recognized in the statement of comprehensive income for share option schemes and restricted share unit schemes is disclosed in note 9.

**24. Commitments**

	2024	2023
Credit commitments with an original maturity of:		
- 1 year or over	-	-
- unconditionally cancellable	541,744	386,518
	<u>541,744</u>	<u>386,518</u>

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**25. 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 11

**(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.

	2024	2023
Cash and cash equivalents	2,568,049	956,584
Lease liabilities	(1,842)	(2,830)
Net debt	<u>2,566,207</u>	<u>953,754</u>
Cash and cash equivalents	2,568,049	956,584
Gross debt – fixed interest rate	(1,842)	(2,830)
Net debt	<u>2,566,207</u>	<u>953,754</u>

	Lease	Cash and cash equivalents	Total
Net debt as at 1 January 2023	(5,308)	946,068	940,760
Cash flows	3,254	9,969	13,223
Acquisition – leases	(689)	-	(689)
Interest expense (note 5(b))	(87)	-	(87)
Foreign exchange adjustments	-	547	547
Net debt as at 31 December 2023 and 1 January 2024	(2,830)	956,584	953,754
Cash flows	1,017	1,548,602	1,549,619
Acquisition – leases	-	-	-
Interest expense (note 5(b))	(29)	-	(29)
Foreign exchange adjustments	-	62,863	62,863
Net debt as at 31 December 2024	<u>(1,842)</u>	<u>2,568,049</u>	<u>2,566,207</u>

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**26. 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 2024	Year ended 31 December 2023
Short-term employee benefits	31,107	30,215
Share-based payments	8,508	12,467
Deferred bonus	2,277	428
	<u>41,892</u>	<u>43,110</u>

**(ii) Transactions with related parties**

**ZA Online**

	Year ended 31 December 2024	Year ended 31 December 2023
Interest income	<u>728</u>	<u>732</u>

**ZATI**

The Bank has recharge arrangement with ZATI under which 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 recharged the Bank for the operating expenses attributable to the Bank monthly on a cost basis.

During the year ended 31 December 2024, ZATI has allocated and recharged operating expenses including staff and rental expenses of HK\$273,287,132 (2023:HK\$327,354,574) to the Bank.

	Year ended 31 December 2024	Year ended 31 December 2023
Operating expenses	(273,287)	(327,355)
Interest expense	(5,790)	(1)
	<u>(279,077)</u>	<u>(327,356)</u>

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**26. Related party transactions (Continued)**

**(ii) Transactions with related parties (Continued)**

<b>Fellow subsidiaries</b>	<b>Year ended 31 December 2024</b>	<b>Year ended 31 December 2023</b>
Interest expense	(1,013)	-
Operating expenses	(38,051)	(41,750)
Fee and commission income	2,918	1,903
	<u>(36,146)</u>	<u>(39,847)</u>
<b>Other related parties</b>	<b>Year ended 31 December 2024</b>	<b>Year ended 31 December 2023</b>
Interest expense	(1,736)	(3,554)
Operating expenses	(475)	(500)
Fee and commission income	31	-
	<u>(2,180)</u>	<u>(4,054)</u>

During the year ended 31 December 2024 and 2023, the Bank has the following transactions with the key management personnel.

	<b>Year ended 31 December 2024</b>	<b>Year ended 31 December 2023</b>
Interest income	8	28
Interest expense	(3,932)	(3,418)
Operating expenses	(36)	(48)
Fee and commission income	1	28
Net gain/(loss) from other financial instruments	36	-
	<u>(3,923)</u>	<u>(3,410)</u>

**(iii) Balances with related parties**

As at 31 December 2024 and 2023, the Bank has the following balances with related parties.

<b>ZA Online</b>	<b>2024</b>	<b>2023</b>
Debt securities measured at FVOCI	<u>23,266</u>	<u>22,007</u>



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**26. Related party transactions (Continued)**

*(iii) Balances with related parties (Continued)*

<b>ZATI</b>	<b>2024</b>	<b>2023</b>
Deposits from customers	(490,979)	(3,494)
Other accounts and accruals	(43,907)	(48,114)
Interest payable	(994)	-
	<u>(535,880)</u>	<u>(51,608)</u>
<b>Fellow subsidiaries</b>	<b>2024</b>	<b>2023</b>
Deposits from customers	(10,446)	(3,644)
Other accounts and accruals	(14,775)	(13,209)
Interest payable	(30)	-
Other assets	2,918	1,903
	<u>(22,333)</u>	<u>(14,950)</u>
<b>Other related parties</b>	<b>2024</b>	<b>2023</b>
Deposits from customers	(59,910)	(122,620)
Interest payable	(57)	(222)
Other accounts and accruals	(20,175)	(11,154)
	<u>(80,142)</u>	<u>(133,996)</u>
<b>Key management personnel</b>	<b>2024</b>	<b>2023</b>
Deposits from customers	(171,649)	(143,301)
Interest payable	(727)	(890)
Bonus payable	(8,409)	(6,489)
Loans and advances to customers	27	1,622
Interest receivable	-	1
	<u>(180,758)</u>	<u>(149,057)</u>

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**27. Benefits 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.

**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 2024	Year ended 31 December 2023
Directors' fees	1,718	2,000
Salaries and bonus	6,268	6,278
Contribution to retirement benefits schemes	36	36
Other benefits	3,807	6,754
Total	<u>11,829</u>	<u>15,068</u>

**28. Dividends**

No dividend was paid or proposed for the year ended 31 December 2024 and 31 December 2023.

**29. Comparative figures**

Certain comparative figures in the financial statements have been reclassified to conform with current year's presentation as a result of changes in the accounting policies adopted for recognition of certain debit card business related fees and debit card reward programs expenses. Details of changes in relevant accounting policies are set out in Note 2.4 and Note 2.5. The reclassification does not impact the opening balance of equity or the total comprehensive loss of all prior periods.

**30. Event after reporting period**

In March 2025, the Bank signed an agreement to early terminate a service agreement with a business partner. The Bank has accounted for the transaction in its 2024 financial statements on the basis that terms and conditions of the termination agreement have been agreed with the business partner prior to 31 December 2024. The corresponding financial impact had been reflected in Agency services in Note 6 and Administrative expenses and others in Note 8 respectively.

**31. Approval of financial statements**

The financial statements were approved by the board of directors on 30 April 2025.