

ZA Bank Limited

Interim Financial Disclosure Statement
For the six months ended
30 June 2023

ZA Bank Limited

Interim Financial Disclosure Statement

Table of contents

Condensed Statement of Comprehensive Income	1
Condensed Statement of Financial Position.....	2
Condensed Statement of Changes in Equity.....	3
Condensed Cash Flow Statement.....	4
Notes to the unaudited financial disclosure statement.....	5

ZA Bank Limited

Interim Financial Disclosure Statement

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Interest income	2	238,967	110,723
Interest expense	2	(126,370)	(21,565)
Net interest income		112,597	89,158
Fee and commission income	3	67,277	71,957
Fee and commission expense	3	(30,508)	(29,174)
Net fee and commission income		36,769	42,783
Net (losses)/gains from disposal of investment securities at fair value through other comprehensive income ("FVOCI")		(49)	153
Other income		2,348	2,083
Operating expenses	4	(323,527)	(361,463)
Operating loss before impairment losses		(171,862)	(227,286)
Credit impairment losses on loans and advances to customers		(28,533)	(17,652)
Credit impairment losses on other financial assets		485	(12,166)
Loss before income tax		(199,910)	(257,104)
Income tax	6	-	-
Net loss for the period		(199,910)	(257,104)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
- Changes in the fair value of debt instruments measured at FVOCI, net of tax		83,261	(219,178)
Total comprehensive loss for the period		(116,649)	(476,282)

ZA Bank Limited

Interim Financial Disclosure Statement

CONDENSED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
ASSETS			
Cash and balances with banks	8	1,163,712	862,372
Placements with and advances to banks	9	242,296	134,272
Loans and advances to customers	10	4,856,172	4,880,747
Investment securities measured at FVOCI	11	6,611,649	5,569,008
Intangible assets	12	42,308	45,299
Fixed assets	13	783	1,252
Other assets	14	113,308	115,048
Total assets		13,030,228	11,607,998
LIABILITIES			
Deposits from customers	15	10,712,056	9,171,742
Other accounts and accruals	16	267,338	277,225
Total liabilities		10,979,394	9,448,967
EQUITY			
Share capital	17	4,100,000	4,100,000
Reserves		(259,485)	(351,198)
Accumulated losses		(1,789,681)	(1,589,771)
Total equity		2,050,834	2,159,031
Total liabilities and equity		13,030,228	11,607,998

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Financial assets at FVOCI reserve	Share-based payment	Accumulated losses	Total equity
Balance at 1 January 2022	3,600,000	(30,306)	1,223	(1,091,202)	2,479,715
Issue of ordinary shares	250,000	-	-	-	250,000
Net loss for the period	-	-	-	(257,104)	(257,104)
Share-based payment expenses	-	-	5,336	-	5,336
Other comprehensive income (net of tax)					
- Change in the fair value of debt instruments measured at FVOCI	-	(219,178)	-	-	(219,178)
Balance at 30 June 2022 (unaudited)	3,850,000	(249,484)	6,559	(1,348,306)	2,258,769
Balance at 1 July 2022	3,850,000	(249,484)	6,559	(1,348,306)	2,258,769
Issue of ordinary shares	250,000	-	-	-	250,000
Net loss for the period	-	-	-	(241,465)	(241,465)
Share-based payment expenses	-	-	7,365	-	7,365
Other comprehensive income (net of tax)					
- Change in the fair value of debt instruments measured at FVOCI	-	(115,638)	-	-	(115,638)
Balance at 31 December 2022 (audited)	4,100,000	(365,122)	13,924	(1,589,771)	2,159,031
Balance at 1 January 2023	4,100,000	(365,122)	13,924	(1,589,771)	2,159,031
Issue of ordinary shares	-	-	-	-	-
Net loss for the period	-	-	-	(199,910)	(199,910)
Share-based payment expenses	-	-	8,452	-	8,452
Other comprehensive income (net of tax)					
- Change in the fair value of debt instruments measured at FVOCI	-	83,261	-	-	83,261
Balance at 30 June 2023 (unaudited)	4,100,000	(281,861)	22,376	(1,789,681)	2,050,834

CONDENSED CASH FLOW STATEMENT

	Notes	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
OPERATING ACTIVITIES			
Loss before income tax		(199,910)	(257,103)
Adjustment for:			
Depreciation and amortization expense	4	8,091	6,219
Interest expense arising from lease liabilities	2	68	10
Change in expected credit losses		28,048	29,818
Net loss (gain) from disposal of investment securities at FVOCI		49	(153)
Share based payment expenses		8,452	5,336
Changes in operating assets and liabilities:			
Decrease in placement with and advances to banks with original maturity beyond 3 months		50,577	497,341
Increase in other assets	14	(34,443)	(11,022)
Increase in loans and advances to customers	10	(3,957)	(1,725,525)
Increase in deposits from customers	15	1,540,314	1,140,679
Decrease in other accounts and accruals	16	(7,347)	(32,638)
Net cash (outflow) from operating activities		1,389,942	(347,038)
INVESTING ACTIVITIES			
Purchase of investment securities measured at FVOCI		(2,944,191)	(1,495,009)
Proceeds from disposal and maturity of investment securities at FVOCI		2,040,083	1,071,718
Payments for intangible assets	12	(2,833)	(1,472)
Purchase of fixed assets	13	(59)	(629)
Net cash (outflow) from investing activities		(907,000)	(425,392)
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		-	250,000
Principal element of lease payments	7	(2,746)	(1,660)
Net cash (outflow) from financing activities		(2,746)	248,340
Net increase/(decrease) in cash and cash equivalents		480,196	(524,090)
Cash and cash equivalents as at 1 January		946,068	1,769,395
Effect of exchange rate changes on cash and cash equivalents		(20,251)	(23,852)
Cash and cash equivalents as at 30 June		1,406,013	1,221,453
Cash and cash equivalents comprise:			
- Cash and balances with banks		1,163,714	954,363
- Placements of bank deposits with original maturity 3 months or less		242,299	267,090
		1,406,013	1,221,453

Notes to the unaudited financial disclosure statement

1. General information

(a) Review of activities

The Bank is incorporated in Hong Kong as a limited company under the Hong Kong Companies Ordinance (Cap. 622) with principal activities on providing banking services to its customers. The address of its registered office is Unit 1301, Level 13, IT Street, Cyberport 3, 100 Cyberport Road, Hong Kong.

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

Improved profitability

The Bank’s strategic focus on quality growth and operational efficiency has delivered strong financial performance in the first half of 2023. Net interest income grew 26% from last year to HK\$112.6 million, with net loss further narrowing by 22%.

The continuous efforts to innovate products and services underpins the Bank’s commitment to offering the best-in-class digital banking experience through a one-stop digital finance platform. The Bank is looking to introduce US stock trading services in due course, which will further strengthen its wealth management proposition to cater to users’ evolving needs.

Unparalleled market position

The Bank continues to maintain its industry-leading position with close to 700,000 customers as at 30 June 2023, serving 10% of Hong Kong’s population aged 18 or above. Customer deposits have surpassed HK\$10 billion, up 17% from the end of 2022, alongside a 12% growth in total assets to HK\$13 billion.

Digitalising business banking services

The Bank has officially launched the express online business account opening service in April. It is a testament to the Bank’s dedication to address the financial needs of the local SMEs.

Banking for Web3

As Hong Kong is set to develop into a global Web3 hub, the Bank aspires to become the go-to banking partner for the Web3 ecosystem with its “Banking for Web3” ambition. The Bank’s goal is to leverage its FinTech capabilities to promote the integration of traditional banking services and the world of Web3.

The Bank has started providing essential business banking services for Web3 enterprises, addressing a still-critical pain point for many SME owners in the Web3 industry. The Bank is also serving as a settlement bank for licensed virtual asset trading platforms (VATPs) in Hong Kong to offer fiat-currency deposit and withdrawal services.

With the new licensing regime for VATPs coming into force this June, the Bank also unveiled its plan to introduce virtual asset trading services for retail investors. The Bank is actively preparing to seek all necessary regulatory approvals to empower retail investors to trade virtual assets by using fiat currencies within the ZA Bank App.

Notes to the unaudited financial disclosure statement

1. General information (continued)

(b) Basis of preparation

The accounting policies adopted in the preparation of the interim financial disclosure statement are consistent with those used in the preparation of the Bank's audited financial statements for the year ended 31 December 2022 except for the adoption of the HKFRSs and HKASs issued up to 30 June 2023 which are pertinent to the Bank's operations and relevant to these interim financial disclosure statement.

The unaudited interim financial disclosure statement does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2022.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgment and make estimates and assumptions in the process of applying the Bank's accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgments made by management were the same as those applied to the annual financial statements for the year ended 31 December 2022.

The financial information relating to the year ended 31 December 2022 that is included in the unaudited interim financial disclosure statements for the six months ended 30 June 2023 as comparative information does not constitute the Bank's statutory annual financial statements for the year ended 31 December 2022 but is derived from the audited financial statements for the year ended 31 December 2022. Further information related to the audited financial statements for the year ended 31 December 2022 disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

As the Company is a private company, the Company is not required to deliver its financial statements to the Registrar of Companies and has not done so.

The Bank's auditor has reported on the audited financial statements for the year ended 31 December 2022. The auditor's report was unqualified; did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2. Net interest income

(a) Interest income

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Interest income arising from:		
- financial assets measured at amortized cost ("AC")	141,943	46,867
- financial assets measured at FVOCI	97,024	63,856
	<u>238,967</u>	<u>110,723</u>

(b) Interest expense

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Interest expense arising from:		
- financial liabilities measured at AC	126,302	21,555
- lease liabilities (note 7)	68	10
	<u>126,370</u>	<u>21,565</u>

3. Net fee and commission income

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Cards	54,973	60,684
Loan	2,545	5,761
Others	9,759	5,512
	<u>67,277</u>	<u>71,957</u>
Fee and commission income	67,277	71,957
Less: fee and commission expense		
- processing and handling fee	(30,508)	(29,174)
	<u>36,769</u>	<u>42,783</u>
Net fee and commission income	<u>36,769</u>	<u>42,783</u>

4. Operating expenses

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Employee benefit expense	236,076	178,978
Advertising and promotion expense	36,700	125,854
Software and IT equipment	27,882	23,635
Depreciation and amortisation expense	8,091	6,219
Legal and professional fees	7,653	13,755
Rental expense	7,018	10,321
Exchange gain	(22,739)	(19,623)
Service fee	5,212	7,162
Auditors' remuneration	1,135	1,442
Administrative expenses and others	16,499	13,720
	<u>323,527</u>	<u>361,463</u>

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

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Salaries, staff welfare and insurance cost	226,069	172,467
Pension costs - defined contribution plans	1,555	1,175
Share-based payments	8,452	5,336
	<u>236,076</u>	<u>178,978</u>

6. Income tax

Hong Kong profits tax has been provided at the effective rate of 16.5% (six months ended 30 June 2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Total current tax expense	<u>-</u>	<u>-</u>

7. 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:

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Right-of-use assets		
- Building	5,146	6,048
- Equipment	506	694
	<u>5,652</u>	<u>6,742</u>
	<u><u>5,652</u></u>	<u><u>6,742</u></u>
	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Lease liabilities		
- Current	982	2,479
- Non-current	2,337	2,829
	<u>3,319</u>	<u>5,308</u>
	<u><u>3,319</u></u>	<u><u>5,308</u></u>

(ii) Amounts recognized in the statement of comprehensive income

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

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Depreciation charge of right-of-use assets	1,779	942
Interest expense (note 2)	68	10

(ii) Supplementary information

	Six months ended 30 June 2023 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000
Additions to the right-of-use assets	689	-
Total cash outflow for leases	2,746	1,660

8. Cash and balances with banks

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Cash on hand	65	65
Balances with central bank	655,886	656,078
Balances with other banks	507,763	206,230
Less: expected credit loss allowances – stage 1	(2)	(1)
	1,163,712	862,372
	1,163,712	862,372

As at 30 June 2023, there were no impaired, overdue or rescheduled balances with banks (31 December 2022: nil).

9. Placements with and advances to banks

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Placements with and advances to banks maturing within one month	242,299	134,273
Less: expected credit loss allowances – stage 1	(3)	(1)
	242,296	134,272
	242,296	134,272

As at 30 June 2023, there were no impaired, overdue or rescheduled placements with and advances to banks (31 December 2022: nil).

10. Loans and advances to customers

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Gross loans and advances to customers	4,916,172	4,927,796
Less: expected credit loss allowances		
- Stage 1	(40,589)	(35,383)
- Stage 2	(7,140)	(5,078)
- Stage 3	(12,271)	(6,588)
	4,856,172	4,880,747
	4,856,172	4,880,747

11. Investment securities measured at FVOCI

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Debt securities	6,611,649	5,569,008
	<u>6,611,649</u>	<u>5,569,008</u>
	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Type of issuer		
- Sovereign	104,499	-
- Banks and other financial institutions	4,252,489	3,178,055
- Corporates	2,254,661	2,390,953
	<u>6,611,649</u>	<u>5,569,008</u>

12. Intangible assets

	Software HK\$'000	Total HK\$'000
Cost:		
At 1 January 2022	22,892	22,892
Additions	38,732	38,732
Exchange	106	106
	<u>61,730</u>	<u>61,730</u>
At 31 December 2022 (audited)	61,730	61,730
Additions	2,833	2,833
Exchange	(39)	(39)
	<u>64,524</u>	<u>64,524</u>
At 30 June 2023 (unaudited)	64,524	64,524
Accumulated amortisation:		
At 1 January 2022	9,042	9,042
Amortisation for the year	7,146	7,146
Exchange	243	243
	<u>16,431</u>	<u>16,431</u>
At 31 December 2022 (audited)	16,431	16,431
Amortisation for the period	5,784	5,784
Exchange	1	1
	<u>22,216</u>	<u>22,216</u>
At 30 June 2023 (unaudited)	22,216	22,216
Net book value at 31 December 2022 (audited)	<u>45,299</u>	<u>45,299</u>
Net book value at 30 June 2023 (unaudited)	<u>42,308</u>	<u>42,308</u>

The management of the Bank determines no impairment loss on the intangible assets.

13. Fixed assets

	Equipment HK\$'000	Total HK\$'000
Cost:		
At 1 January 2022	5,541	5,541
Additions	858	858
	<hr/>	<hr/>
At 31 December 2022 (audited)	6,399	6,399
Additions	59	59
	<hr/>	<hr/>
At 30 June 2023 (unaudited)	6,458	6,458
	<hr/>	<hr/>
Accumulated depreciation:		
At 1 January 2022	2,456	2,456
Depreciation for the year	2,691	2,691
	<hr/>	<hr/>
At 31 December 2022 (audited)	5,147	5,147
Depreciation for the period	528	528
	<hr/>	<hr/>
At 30 June 2023 (unaudited)	5,675	5,675
	<hr/>	<hr/>
Net book value at 31 December 2022 (audited)	1,252	1,252
	<hr/> <hr/>	<hr/> <hr/>
Net book value at 30 June 2023 (unaudited)	783	783
	<hr/> <hr/>	<hr/> <hr/>

14. Other assets

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Deposits	82,138	79,799
Receivable from card business	10,039	14,487
Prepaid expenses	9,424	8,149
Right-of-use assets (note 7)	5,652	6,742
Others	6,055	5,871
	<hr/>	<hr/>
	113,308	115,048
	<hr/> <hr/>	<hr/> <hr/>

15. Deposits from customers

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Saving deposits	3,638,760	2,863,403
Time deposits	7,073,296	6,308,339
	<u>10,712,056</u>	<u>9,171,742</u>

16. Other accounts and accruals

	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Accounts payable and accruals	132,298	133,060
Amounts due to related parties	91,451	88,328
Deferred revenue	20,987	25,325
Accruals for employee benefit	17,668	23,725
Lease liabilities	3,319	5,308
Others	1,615	1,479
	<u>267,338</u>	<u>277,225</u>

17. Share capital

	As at 30 June 2023 (unaudited) Shares	As at 31 December 2022 (audited) Shares	As at 30 June 2023 (unaudited) HK\$'000	As at 31 December 2022 (audited) HK\$'000
Ordinary shares Fully Paid	4,100,000,000	4,100,000,000	4,100,000	4,100,000

On 25 May 2022, 20 September and 30 December 2022, the Bank respectively issued 250,000,000 ordinary shares, 200,000,000 ordinary shares and 50,000,000 ordinary shares to the parent company at HK\$250,000,000, HK\$200,000,000 and HK\$50,000,000 for cash. All the cash was paid up on the date of issuance.

18. Fair value estimation

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

	Level 1	Total
At 30 June 2023 (unaudited)		
Investment securities measured at FVOCI		
- Debt securities	6,611,649	6,611,649
	<u>6,611,649</u>	<u>6,611,649</u>
	<u><u>6,611,649</u></u>	<u><u>6,611,649</u></u>
At 31 December 2022 (audited)		
Investment securities measured at FVOCI		
- Debt securities	5,569,008	5,569,008
	<u>5,569,008</u>	<u>5,569,008</u>
	<u><u>5,569,008</u></u>	<u><u>5,569,008</u></u>

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

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

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

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

19. Dividends

No dividend was paid or proposed for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).