

ZA Bank Limited

Interim Financial Disclosure Statements
For the six months ended
30 June 2024

ZA Bank Limited

Interim Financial Disclosure Statements

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ZA Bank Limited

Interim Financial Disclosure Statements

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June 2024 (unaudited) HK\$'000	Six months ended 30 June 2023 (unaudited) HK\$'000
Interest income	2	440,016	238,967
Interest expense	2	(232,399)	(126,370)
Net interest income		207,617	112,597
Fee and commission income		77,220	65,751
Fee and commission expense		(28,703)	(30,508)
Net fee and commission income		48,517	35,243
Net (loss)/gain from other financial instruments		(11,722)	24,215
Other income		10,098	2,348
Operating expenses	3	(302,076)	(346,265)
Operating loss before impairment losses		(47,566)	(171,862)
Credit impairment losses on loans and advances to customers		(63,002)	(28,533)
Credit impairment losses on other financial assets		1,310	485
Loss before income tax		(109,258)	(199,910)
Income tax		-	-
Net loss for the period		(109,258)	(199,910)
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		64,762	83,261
Total comprehensive loss for the period		(44,496)	(116,649)

CONDENSED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
ASSETS			
Cash and balances with banks	4	1,561,012	827,707
Placements with and advances to banks	5	-	128,862
Loans and advances to customers	6	5,467,926	5,318,601
Investment securities measured at FVOCI	7	12,667,707	7,473,496
Intangible assets	8	34,139	39,074
Fixed assets	9	484	432
Other assets		221,697	141,885
Total assets		19,952,965	13,930,057
LIABILITIES			
Repurchase agreement		800,000	-
Deposits from customers	10	16,801,498	11,695,320
Other accounts and accruals		440,539	284,596
Total liabilities		18,042,037	11,979,916
EQUITY			
Share capital	11	4,100,000	4,100,000
Reserves		(90,967)	(161,012)
Accumulated losses		(2,098,105)	(1,988,847)
Total equity		1,910,928	1,950,141
Total liabilities and equity		19,952,965	13,930,057

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Financial assets at FVOCI reserve	Share-based payment reserve	Accumulated losses	Total equity
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					
- Change in the fair value of debt instruments measured at FVOCI, net of tax	-	83,261	-	-	83,261
Balance at 30 June 2023 (unaudited)	<u>4,100,000</u>	<u>(281,861)</u>	<u>22,376</u>	<u>(1,789,681)</u>	<u>2,050,834</u>
Balance at 1 July 2023	4,100,000	(281,861)	22,376	(1,789,681)	2,050,834
Issue of ordinary shares	-	-	-	-	-
Net loss for the period	-	-	-	(199,166)	(199,166)
Share-based payment expenses	-	-	8,182	-	8,182
Other comprehensive income					
- Change in the fair value of debt instruments measured at FVOCI, net of tax	-	90,291	-	-	90,291
Balance at 31 December 2023 (audited)	<u>4,100,000</u>	<u>(191,570)</u>	<u>30,558</u>	<u>(1,988,847)</u>	<u>1,950,141</u>
Balance at 1 January 2024	4,100,000	(191,570)	30,558	(1,988,847)	1,950,141
Issue of ordinary shares	-	-	-	-	-
Net loss for the period	-	-	-	(109,258)	(109,258)
Share-based payment expenses	-	-	5,283	-	5,283
Other comprehensive income					
- Change in the fair value of debt instruments measured at FVOCI, net of tax	-	64,762	-	-	64,762
Balance at 30 June 2024 (unaudited)	<u>4,100,000</u>	<u>(126,808)</u>	<u>35,841</u>	<u>(2,098,105)</u>	<u>1,910,928</u>

CONDENSED CASH FLOW STATEMENT

	Notes	Six months ended 30 June 2024 (unaudited) HK\$'000	Six months ended 30 June 2023 (unaudited) HK\$'000
OPERATING ACTIVITIES			
Loss before income tax		(109,258)	(199,910)
Adjustment for non-cash items and other adjustments included within income statements		(143,915)	(52,316)
Changes in operating assets		(292,822)	45,970
Changes in operating liabilities		6,062,614	1,532,280
Net cash inflow from operating activities		<u>5,516,619</u>	<u>1,326,024</u>
INVESTING ACTIVITIES			
Purchase of investment securities measured at FVOCI		(52,019,686)	(2,944,191)
Proceeds from disposal and maturity of investment securities at FVOCI		47,065,701	2,040,083
Payments for intangible assets	8	(1,104)	(2,833)
Purchase of fixed assets	9	(279)	(59)
Interest received from investment securities measured at FVOCI		48,578	65,537
Net cash (outflow) from investing activities		<u>(4,906,790)</u>	<u>(841,463)</u>
FINANCING ACTIVITIES			
Principal element of lease payments		(509)	(2,746)
Net cash (outflow) from financing activities		<u>(509)</u>	<u>(2,746)</u>
Net increase in cash and cash equivalents		609,320	481,815
Cash and cash equivalents as at 1 January		956,584	946,068
Effect of exchange rate changes on cash and cash equivalents		(4,890)	(21,870)
Cash and cash equivalents as at 30 June		<u><u>1,561,014</u></u>	<u><u>1,406,013</u></u>
Cash and cash equivalents comprise:			
- Cash and balances with banks		1,561,014	1,163,714
- Placements of bank deposits with original maturity 3 months or less		-	242,299
		<u><u>1,561,014</u></u>	<u><u>1,406,013</u></u>

Notes to the unaudited financial disclosure statements

1. General information

(a) Review of activities

The Bank licensed by the Hong Kong Monetary Authority (“HKMA”) on 27 March 2019, is one of the first batch of virtual banks in Hong Kong and it was officially launched on 24 March 2020 with principal activities of providing banking and related financial services to its customers in Hong Kong. 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 is a wholly-owned subsidiary of ZhongAn Financial Services Limited (the “parent company”). The Bank is jointly controlled entity of ZhongAn Online P&C Insurance Co., Ltd. (the “ZA Online”, a company incorporated in the People’s Republic of China and listed on the Main Board of the Stock Exchange of Hong Kong (the “SEHK”)) and Sinolink Worldwide Holdings Limited (a company incorporated in Bermuda and listed on the Main Board of the SEHK) in accordance with the Hong Kong Financial Reporting Standards.

Path to profitability

The Bank’s strategic focus on quality growth and operational efficiency yielded robust results in the first half of 2024. Net interest income surged 84% year-on-year to over HK\$207 million, while net fee and commission income grew 38% to over HK\$48 million. Notably, the Bank narrowed its net loss by 45%, marking a substantial reduction of nearly HK\$100 million from the previous year. The Bank has recently reached a significant milestone by declaring its first monthly net profitability after just four years since launch. This achievement laid a solid foundation for future growth and underscoring the sustainability of its tech-driven business model and diversified revenue streams.

Market leader with a robust product suite

As Hong Kong’s first and largest digital bank¹, the Bank has solidified its market-leading position with over 800,000 retail users as at 30 June 2024, serving over 13% of Hong Kong’s bankable population². New savings products, including High-rate Savings Pot, and innovative offerings drove a 44% increase in customer deposits to HK\$16.8 billion and a 43% growth in total assets to nearly HK\$20 billion in the first half of 2024. The Bank also enhanced its wealth management product suite with the launch of US stock trading services in February, followed by Hong Kong’s first stock rebate programme “StockBack”, catering to users’ evolving needs alongside investment funds.

Banking for Web3

The Bank leverages its fintech capabilities to integrate traditional banking with Web3. In an industry first, we extended business banking to the stablecoin space in July, becoming Hong Kong’s first digital bank to offer dedicated reserve banking services for stablecoin issuers. We are actively preparing to enable retail users to trade virtual assets using fiat currencies through Hong Kong-licensed platforms within the ZA Bank App.

Security-centric banking

With a steadfast commitment to cybersecurity, the Bank has bolstered its in-house systems, enhancing risk control performance by 400% since inception. Our dedication to combatting financial crimes was recognised with the prestigious “Good Organisation Award” by the Hong Kong Police Force, a testament to our unwavering efforts in safeguarding users. We are the only bank to be honoured this year and the first local digital bank to receive this award.

¹ As the first digital bank (also known as “virtual bank”) to launch in Hong Kong, ZA Bank had the highest number of users and customer deposits among the city’s eight digital banks by the end of 2023. Source: Annual reports of 8 digital banks.

² Hong Kong’s bankable population: Hong Kong’s population aged 18 or above. As of mid-2024, Hong Kong’s population is approximately 7.5 million (Source: Census and Statistics Department). Based on general demographic trends, around 80% of the population falls into the adult category. Applying this percentage, there would be roughly 6 million adults in Hong Kong in 2024 (Source: Statistics Times).

Notes to the unaudited financial disclosure statements

1. General information (continued)

(a) Review of activities (continued)

Global recognition

The Bank's exceptional performance has been recognised by industry accolades from leading international media outlets. We are the first Hong Kong bank to be named "Rising Star" in the prestigious Euromoney Awards for Excellence – the only Hong Kong bank to win in the category this year, and one of just four winners worldwide. For the second consecutive year, the Bank has also retained the "Virtual Bank of the Year - Retail Banking" title in the highly-regarded The Asset Triple A Digital Awards. Meanwhile, the Bank remains dedicated to supporting local SMEs with innovative digital solutions, even in challenging times. Our express online business account opening service earned the "SME Digital Innovation of the Year - Hong Kong" award from Asian Banking & Finance.

(b) Basis of preparation

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Bank's audited financial statements for the year ended 31 December 2023 except for the adoption of the HKFRSs and HKASs issued up to 30 June 2024 which are pertinent to the Bank's operations and relevant to these interim financial disclosure statement.

The unaudited interim financial disclosure statements do 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 2023.

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 2023.

The financial information relating to the year ended 31 December 2023 that is included in the unaudited interim financial disclosure statements for the six months ended 30 June 2024 as comparative information does not constitute the Bank's statutory annual financial statements for the year ended 31 December 2023 but is derived from the audited financial statements for the year ended 31 December 2023. Further information related to the audited financial statements for the year ended 31 December 2023 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 2023. 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.

Notes to the unaudited financial disclosure statements

2. Net interest income

(a) Interest income

	Six months ended 30 June 2024 (unaudited) HK\$'000	Six months ended 30 June 2023 (unaudited) HK\$'000
Interest income arising from:		
- financial assets measured at amortized cost ("AC")	211,559	141,943
- financial assets measured at FVOCI	228,457	97,024
	<u>440,016</u>	<u>238,967</u>

(b) Interest expense

	Six months ended 30 June 2024 (unaudited) HK\$'000	Six months ended 30 June 2023 (unaudited) HK\$'000
Interest expense arising from:		
- financial liabilities measured at AC	232,383	126,302
- lease liabilities	16	68
	<u>232,399</u>	<u>126,370</u>

3. Operating expenses

	Six months ended 30 June 2024 (unaudited) HK\$'000	Six months ended 30 June 2023 (unaudited) HK\$'000
Employee benefit expense	198,046	236,076
Legal and professional fees	7,584	7,653
Depreciation and amortisation expense	6,901	8,091
Other operating expense	89,545	94,445
	<u>302,076</u>	<u>346,265</u>

Notes to the unaudited financial disclosure statements

4. Cash and balances with banks

	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
Cash on hand	95	95
Balances with central bank	1,268,546	713,637
Balances with other banks	292,373	113,976
Less: expected credit loss allowances – stage 1	(2)	(1)
	1,561,012	827,707

As at 30 June 2024, there were no impaired, overdue or rescheduled balances with banks (31 December 2023: nil).

5. Placements with and advances to banks

	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
Placements with and advances to banks maturing within one month	-	128,876
Less: expected credit loss allowances – stage 1	-	(14)
	-	128,862

As at 30 June 2024, there were no impaired, overdue or rescheduled placements with and advances to banks (31 December 2023: nil).

6. Loans and advances to customers

	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
Gross loans and advances to customers	5,619,164	5,430,325
Less: expected credit loss allowances		
- Stage 1	(62,043)	(56,694)
- Stage 2	(6,183)	(12,101)
- Stage 3	(83,012)	(42,929)
	5,467,926	5,318,601

Notes to the unaudited financial disclosure statements

7. Investment securities measured at FVOCI

	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
Debt securities	12,667,707	7,473,496

8. Intangible assets

	Software HK\$'000	Total HK\$'000
Cost:		
At 1 January 2023	61,730	61,730
Additions	8,598	8,598
Exchange	(18)	(18)
At 31 December 2023 (audited)	70,310	70,310
Additions	1,104	1,104
Exchange	(61)	(61)
At 30 June 2024 (unaudited)	71,353	71,353
Accumulated amortisation:		
At 1 January 2023	16,431	16,431
Amortisation for the year	14,802	14,802
Exchange	3	3
At 31 December 2023 (audited)	31,236	31,236
Amortisation for the period	5,991	5,991
Exchange	(13)	(13)
At 30 June 2024 (unaudited)	37,214	37,214
Net book value at 31 December 2023 (audited)	39,074	39,074
Net book value at 30 June 2024 (unaudited)	34,139	34,139

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

Notes to the unaudited financial disclosure statements

9. Fixed assets

	Equipment HK\$'000	Total HK\$'000
Cost:		
At 1 January 2023	6,399	6,399
Additions	79	79
	<hr/>	<hr/>
At 31 December 2023 (audited)	6,478	6,478
Additions	279	279
	<hr/>	<hr/>
At 30 June 2024 (unaudited)	6,757	6,757
	<hr/>	<hr/>
Accumulated depreciation:		
At 1 January 2023	5,147	5,147
Depreciation for the year	899	899
	<hr/>	<hr/>
At 31 December 2023 (audited)	6,046	6,046
Depreciation for the period	227	227
	<hr/>	<hr/>
At 30 June 2024 (unaudited)	6,273	6,273
	<hr/>	<hr/>
Net book value at 31 December 2023 (audited)	432	432
	<hr/> <hr/>	<hr/> <hr/>
Net book value at 30 June 2024 (unaudited)	484	484
	<hr/> <hr/>	<hr/> <hr/>

10. Deposits from customers

	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
Saving deposits	5,904,063	3,607,482
Time deposits	10,897,435	8,087,838
	<hr/>	<hr/>
	16,801,498	11,695,320
	<hr/> <hr/>	<hr/> <hr/>

Notes to the unaudited financial disclosure statements

11. Share capital

	As at 30 June 2024 (unaudited) Shares	As at 31 December 2023 (audited) Shares	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
Ordinary shares Fully Paid	4,100,000,000	4,100,000,000	4,100,000	4,100,000

No ordinary shares were issued during 2023 and for the six months ended 30 June 2024.

12. 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 2	Total
At 30 June 2024 (unaudited)		
Investment securities measured at FVOCI		
- Debt securities	12,667,707	12,667,707
	<u>12,667,707</u>	<u>12,667,707</u>
	<u><u>12,667,707</u></u>	<u><u>12,667,707</u></u>
At 31 December 2023 (audited)		
Investment securities measured at FVOCI		
- Debt securities	7,473,496	7,473,496
	<u>7,473,496</u>	<u>7,473,496</u>
	<u><u>7,473,496</u></u>	<u><u>7,473,496</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.

Notes to the unaudited financial disclosure statements

13. Dividends

No dividend was paid or proposed for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

14. Comparative figures

Certain comparative figures in the financial statements have been reclassified to conform with current period's presentation.

15. Subsequent event

Share capital increased HKD200,000,000 after the reporting period. This funding is to support business growth of the Company.