livi bank
理慧銀行

Annual Report

2023

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理慧銀行

Contents

A Chinese translation of this annual report is available on request. Copies are also available in English and Chinese on the Bank's website at www.livibank.com.

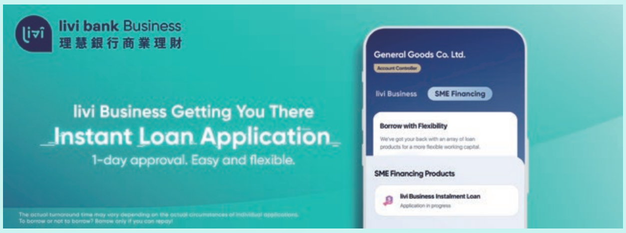
Review of 2023

livi aims to be recognized as the leading Virtual Bank in Hong Kong with a unique digital offering, supported by our ecosystem partners. Our goal is to achieve profitable and sustainable growth in Hong Kong and the Greater Bay Area by creating innovative banking experiences that empower our customers.

Business Review

In 2023, livi focused on developing and expanding revenue generating products and services. livi now has in place a range of core banking services that meet customers' daily needs in terms of deposits, insurance, and payments.

livi Business was successfully launched in March 2023. We are confident that by offering solutions and championing financial inclusion, livi Business will empower small and medium enterprises ("SME") to focus on what they do best, building their businesses and driving growth.



We are offering a market-first fully digital account opening process 24/7 on the livi App which in most cases does not require any document submission. With a simple 20-minute application process, SME customers can open a new livi Business account in as little as one working day.

Following the successful rollout of livi Business, we have extended our SME lending and trade financing offerings with new products such as Invoice Financing, livi Business Instalment Loan, as well as 80% and 90% Guarantee Product under the SME Financing Guarantee Scheme (SFGS).

The Bank also continued to grow the business ecosystem and expand the partnerships. Eligible SME customers can apply for livi Business' instalment loan service on KPay's business management platform.

livi's technology innovation has significantly enhanced the account opening experience for customers travelling from the Mainland. Moreover, livi QR Payment enables customers to make QR payments in the Mainland and other popular travel destinations.

Review of 2023

As at 31 December 2023, livi had over 300,000 Retail customers and over 2,800 SME customers, with HK$2.2 billion in customer deposits. Loans to customers grew by 21% to HK$1.6 billion, compared to end of the previous year.

Since the launch of our business banking services which have gained good momentum so far, we are accelerating our development in livi Business to better meet our customer needs. SME is an important growth engine for livi. We gained strong support from our major shareholders on the strategy development and reorganized our teams to create a solid foundation to focus on our customer needs.

livi enjoys the benefits of a strong shareholder base with BOC Hong Kong (Holdings), the Jardine Matheson Group and JD Technology, which together provide a unique range of benefits in terms of financial strength, technological expertise and marketing excellence.

Full details of the results for the year ended 31 December 2023 and the state of the Bank's affairs as at that date are set out within the financial statements.

Recognitions and Community Responsibilities

As a virtual bank, livi fully supports the development of fintech in Hong Kong and the enhancement the overall customer experience through innovation. The Bank is also committed to promoting financial inclusion for both retail customers and small entrepreneurs.

The Bank continued to receive industry awards recognizing the efforts and commitment.

The Bank chairs the Hong Kong Association of Bank's Virtual Banking Committee and works with industry peers to discuss issues relating to the development of virtual banking in Hong Kong and to raise public awareness on virtual banking.

To inspire young talents to explore career opportunities in banking, livi hosted a sharing session with secondary school students, as part of the Young Banker Summer Programme co-organised by the Chinese Banking Association of Hong Kong, the Hong Kong Monetary Authority and Education Bureau.

Several livi colleagues have voluntarily participated in the Government-led Strive & Rise Programme as mentors for the underprivileged students.

Appreciation and Outlook

We would like to thank all our colleagues for their dedication and hard work. They are important assets in the Bank's journey in developing and providing unparalleled digital banking experience for our customers.

As the Bank enters its fourth year of operation, livi will focus on accelerating the development of its SME business, continue to enhance its lending services, and further expand its insurance offerings. With our banking platform, we are in a good position to explore and capture the opportunities in Hong Kong and the GBA markets.

We are confident that by leveraging the strengths of our shareholders, deepening strategic business partnerships, and continuing the technology innovation, we will achieve business goals while contributing to further financial inclusion in Hong Kong.

Leadership

Board of Directors

Mr. LIU Chenggang
Chairperson and Non-Executive Director

Mr. LIU was appointed as Chairperson and Director in 2022. Mr. Liu is a China Senior Accountant and Chartered Financial Analyst. He became Chief Financial Officer of Bank of China (Hong Kong) Limited ("BOCHK") in 2022 overseeing Financial Management Department, General Accounting and Accounting Policy Department, Treasury, as well as the Economics & Strategic Planning Department. Prior to his current role, Mr. Liu was the General Manager of Equity Investment and Subsidiary Management Department in the Bank of China. He first joined the Bank of China in 1994, and subsequent management positions included General Manager of Treasury from 2014 to 2016 and of Financial Management Department from 2016 to 2018. He also worked in various departments at the parent bank's Head Office, Macau branch and Shenzhen branch.

Mr. Liu has a Bachelor's Degree in Investment Economic Management from Renmin University of China, a Master's Degree in International Finance from PBC School of Finance, Tsinghua University, and a Master's Degree in Applied Finance, Macquarie University, Australia.

Mr. SUN Dawei
Executive Director & Chief Executive

Mr. SUN was appointed as Director and Chief Executive in 2020. He has over 20 years' banking experience, having held a number of senior positions at the Bank of China. He has worked in BOCHK from 2016, where his responsibilities included management oversight of the bank's branch network, consumer banking and SME business, as well as personal banking and wealth management products. Mr. Sun's past roles have covered consumer banking, innovation and digital transformation, providing him with insights in local consumer behaviour and trends. He has also participated in a number of major innovative projects, including branch transformation and the extension of Greater Bay Area account opening facilities for Hong Kong customers.

Mr. Sun graduated from University of International Business and Economics with a Bachelor of Science in Economics, obtained a Master of Science in Finance from Tsinghua University, and an Executive MBA from the City University London.

Mr. CHENG Chung Ngam
Non-Executive Director

Mr. CHENG was appointed as a Director in 2023. He is the Chief Information Officer of BOCHK. He joined the Bank of China Group in 1988 and BOCHK in 2001, where he has held senior management positions in the Information Technology Department and Innovation and Optimization Centre. He has extensive experience in utilizing emerging technologies to deliver new banking products and services. Mr. Cheng is also active in society, including serving as president of the Hong Kong Computer Society, member of the Digital Economy Development Committee of the HKSAR, vice chairman of the Hong Kong Alliance of Technology and Innovation, member of the Vocational Training Council and co-chairman of the Hospital Authority Information Technology Technical Advisory Committee, and the Hong Kong Convener of the Shenzhen-Hongkong-Macao FinTech Alliance.

Mr. Cheng holds a Doctor of Business Administration from Hong Kong Polytechnic University, and a Master of Public Administration, an MBA, a Master of Computer Science from Tsinghua University, Chinese University of Hong Kong, and City University of Hong Kong, respectively.

Mr. CHOO Peng Chee
Non-Executive Director

Mr. CHOO was appointed as a Director in 2022. He is a senior executive in DFI Retail Group, a listed subsidiary in the Jardine Matheson Group. Mr. Choo has extensive knowledge of consumer markets in the Region with more than 35 years of retail experience. Mr. Choo is the CEO of DFI Food, responsible for all DFI food retail (including supermarkets and hypermarkets) across Hong Kong, Macau, Singapore, Cambodia, and Indonesia. He is a director of the DFI Retail Group Management Services Board and is also a director of Robinsons Retail Holdings, Inc. in the Philippines. He joined the DFI Retail Group in 2000 and has held a series of senior executive positions in Singapore and Hong Kong.

Mr. Choo has an MBA in Retailing from the University of Stirling, Scotland.

Mr. LIANG Yiming
Independent Non-Executive Director

Mr. LIANG was appointed as a Director in 2019. He has more than 25 years of financial services industry experience and more than 10 years of senior management experience taking up supervisory roles and management responsibilities. He was a managing director and a management committee member of Huatai Financial Holdings (HK) Limited from 2014 to 2019, prior to that he was with Standard Chartered Bank, Shinsei Bank, JPMorgan etc. His expertise covers commercial and investment banking, derivatives products and financial securities trading, and asset management. He is a financial products innovator and expert in FinTech developments.

Mr. Liang obtained a Bachelor of Science degree in Physics from University of Science and Technology of China, a Doctorate in Physics from University of California, San Diego and was a Postdoctoral Research Fellow at Lawrence Berkeley National Lab & UC Berkeley.

Leadership

Mr. PANG Yiu Kai
Non-Executive Director

Mr. PANG was appointed as a Director in 2021. He is deputy managing director and chairman of Hong Kong of Jardine Matheson Holdings Limited. He has held a number of senior executive positions in the Jardine Matheson Group, including chief executive of Hongkong Land Holdings Limited from 2007 to 2016. Mr. Pang is also deputy chairman of Jardine Matheson Limited, chairman of Gammon China Limited, and a director of Hongkong Land Holdings Limited, Jardine Matheson (China) Limited, and Mandarin Oriental International Limited.

Mr. Pang is chairman of the Hong Kong Tourism Board, chairman of the Hong Kong Management Association, a member of the Council and General Committee of the Hong Kong General Chamber of Commerce and the Employers' Federation of Hong Kong.

Mr. Pang obtained an Honorary Doctorate in Education from The Education University of Hong Kong, an Honorary Doctorate from University of Edinburgh, an MBA from University of Edinburgh and a Bachelor of Science degree in Civil Engineering from University of Nottingham.

Mr. Nicholas Robert SALLNOW-SMITH
Independent Non-Executive Director

Mr. SALLNOW-SMITH was appointed as a Director in 2019. He is an independent non-executive director of Wynn Macau Limited and a non-executive director of UCP Plc. He was chairman and an independent non-executive director of Link Asset Management Limited between 2007 and 2016, where he chaired the finance and investment, and nominations committees. He was chief executive of Hongkong Land Holdings Limited from 2000 to 2007, having served as finance director from 1998 to 2000, and was group treasurer of Jardine Matheson from 1993 to 1998. He began his career in London in Her Majesty's Treasury, and then held a number of financial positions before moving to Hong Kong.

Mr. Sallnow-Smith was convenor of the Hong Kong Association of Corporate Treasurers; a council member of the Treasury Markets Association; chairman of the Manpower Committee of the Hong Kong General Chamber of Commerce; chairman of the General Committee of The British Chamber of Commerce in Hong Kong; and a member of the Financial Reporting Council of Hong Kong. He is active in the community and was an executive committee member of the Hong Kong Youth Arts Foundation and a member of the Board of Governors of Hong Kong Philharmonic Society.

Mr. Sallnow-Smith was educated at Gonville & Caius College, Cambridge and the University of Leicester, and is a Fellow of the Association of Corporate Treasurers. He holds M.A. (Cantab) and M.A. (Soc. of Ed.) Degrees.

Mr. SHEN Jianguang
Non-Executive Director

Mr. SHEN was appointed as a Director in 2019. He is vice president and chief economist of JD Group. Previously he served as chief economist of Mizuho Securities Asia Limited and was senior economist at China International Capital Corporation and European Central Bank successively. Before that, he held economist positions at IMF, OECD and Central Bank of Finland, in addition to being a visiting scholar at PBOC. He participates in expert consultation meetings of major economic decision-making departments of the country.

Mr. Shen is a visiting professor at the School of Economics of Fudan University, the School of International Economics of Fudan University, a standing member of China Society of Public Finance, a member of China Society for Finance & Banking, Executive President of Moganshan Institute and a member of the China Chief Economist Forum. He was offered postdoctoral fellowship in Economics at the Massachusetts Institute of Technology, holds a Doctorate and a Master's degree in Economics from the University of Helsinki, and obtained his Bachelor degree at Fudan University.

Ms. Barbara SHIU
Independent Non-Executive Director

Ms. SHIU was appointed as a Director in 2019. She is an independent non-executive director of HKR International Limited. Ms. Shiu has over 35 years' experience in financial services and has held several senior positions in financial institutions, including the Bank of China group. She was the general manager of BOCHK in charge of the Operational Risk and Compliance Department when she retired in 2014. She was also the chairman of Hong Kong Securities Institute, a director of Hong Kong Deposit Protection Board and Financial Dispute Resolution Centre, a member of the International Advisory Committee of China Securities Regulatory Commission, a member of the Product Advisory Committee and Investor Education Advisory Committee of Securities and Futures Commission of Hong Kong as well as a member of risk management committee of Hong Kong Exchanges and Clearing Limited. Ms. SHIU also has a long record of public service in Hong Kong and is active in not-for-profit organizations.

Ms. Shiu obtained her BSc (Hons) and an MBA, from the University of Toronto.

Corporate Governance and Risk

Corporate Governance

The Bank is committed to maintaining high standards of corporate governance to safeguard the interests of all of its stakeholders. As a licenced bank in Hong Kong, livi abides by the regulatory requirements set by the Hong Kong Monetary Authority ("HKMA") and all relevant laws of Hong Kong, including the Personal Data (Privacy) Ordinance. With effective oversight and control, the Bank has complied with the provisions issued by the HKMA in the SPM Module CG-1 on "Corporate Governance of Locally Incorporated Authorized Institutions" throughout the year under review.

a) The Board of Directors

The Board is at the core of the Bank's corporate governance framework and is responsible for supervising the management of business and affairs of the Bank with due regard to ensuring operational effectiveness and financial soundness, achieving sustained shareholder value and enhancing corporate governance. The Bank seeks to maintain in the Board an appropriate mix of skills, experience and diversity that are relevant to the Bank's strategy, governance and business.

The Board provides strategic guidance and effective oversight of the Management. The Board authorizes the Management to implement the strategies as approved by the Board, and the Management is responsible for day-to-day operations of the Bank and reports to the Board.

Upon appointment to the Board, Directors are provided with comprehensive induction training to ensure that they have thorough understanding of the Bank's operations and governance policies, as well as their roles and responsibilities. Thereafter, Directors participate in regular training programmes that provide them with the opportunity to keep abreast of current trends and issues facing the Bank, while enabling them to update and refresh their skills and knowledge needed for the performance of their duties.

The Board recognizes that conducting regular evaluation of its performance is essential to good corporate governance and board effectiveness. Following the evaluations of the Board, Board Committees and the individual Directors by an independent external consultant, actions were taken to identify and address areas requiring enhancement and attention going forward.

During the year, four Board meetings were held.

b) Board Committees

The Board has established and delegated the oversight of certain major functional areas to Board Committees to assist it in carrying out its duties and responsibilities. The Board has three standing Board Committees, namely Audit Committee, Board Risk Committee and Nomination and Remuneration Committee.

- **Audit Committee ("AC")**

The AC assists the Board in meeting its responsibilities for the integrity of the Bank's financial reporting including the effectiveness of the internal control and risk management systems and for monitoring the effectiveness and objectivity of internal and external auditors. The Internal Audit Department, which has direct access to the AC, is responsible for providing independent assurance regarding the existence of adequate and effective internal control environment adopted by the Bank. The remit of the AC concerns the whole of the Bank's businesses and it has oversight responsibility for financial reporting, internal control and audit processes of the Bank. The AC has responsibility for overseeing the Bank's whistleblowing policy.

The AC consists of five Directors, three of which including the Committee chairperson are INEDs. During 2023, four AC meetings were held.

- **Board Risk Committee ("BRC")**

The Board has, amongst other things, the responsibility to determine the Bank's risk appetite and risk tolerances, and to ensure that the Bank establishes and maintains an appropriate and effective risk management framework.

The BRC provides advice and assists the Board in fulfilling such responsibilities. The BRC also assists the Board to discharge its duty to oversee, on an ongoing basis, the risk management framework and approve the risk metrics, and also advises the Board on risk-related issues and aspects as requested by the Board or, in the opinion of the BRC, require Board attention.

The BRC consists of five Directors, three of which including the Committee chairperson are INEDs. During 2023, five BRC meetings were held.

- **Nomination and Remuneration Committee ("NRC")**

The NRC is responsible for reviewing the selection procedures, standards and qualification of Directors and senior management of the Bank and making recommendations to the Board. When reviewing the selection of Directors, the NRC is required to evaluate the appropriate diversity of skills, backgrounds, knowledge and experience on the Board as well as consider the independence requirements for the appointment of INEDs. The NRC also reviews remuneration plans for Directors and senior management, putting forward recommendations to the Board and supervising the implementation plan. The NRC also assists the Board in fulfilling its oversight responsibility relating to human resources strategy, corporate culture etc.

The NRC consists of five Directors, three of which including the Committee chairperson are INEDs. During 2023, three NRC meetings were held.

c) The Chief Executive ("CE") and the Management Committee ("MC")

The Board has delegated to the CE the authority to manage the day-to-day business and affairs of the Bank, subject to such specific delegations and limits that the Board makes from time to time. The CE may sub-delegate such authority and power to such members of the Management as he shall determine from time to time.

The MC is established by the Board under the CE to oversee other important business and controls, as well as day-to-day risk in the Bank on an on-going basis. The MC provides organizational direction on behalf of the Board and advises the Board on decisions and business matters ranging from strategy planning, policy and procedures and overall risk management.

Six sub-committees have also been established by the MC and delegated with the authority to support the MC in discharging its functions, including Asset and Liability Committee, New Product Committee, Procurement Committee, Information Technology Committee, Risk Management & Internal Control Committee, and Wealth Management Committee.

Risk

a) Overview

Through the Board, the Bank takes a proactive and prudent approach in having a sound and robust risk management framework that provides a holistic and systematic approach for identification, assessment, monitoring and reporting of risks. It is designed to be dynamic with the intent of fostering the right risk culture and responds promptly and effectively in the constantly evolving business environment.

The Bank recognizes that risk represents both threats and opportunities. While risk cannot be eliminated entirely, it can be reduced or mitigated through effective risk management mechanisms. Risk strategy plays a vital role in confidence-building measures within a prudent framework for risk management, and it involves conducting a comprehensive assessment on potential exposures and developing measures to mitigate identified risk. The aim of this process is to provide the Bank with an accurate, up-to-date assessment so the Bank can better manage the risk and meet customer needs, while remaining fiscally sound.

The Board considers that, as at 31 December 2023, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy. The Board considers that the systems of internal control embedded within the risk management framework have worked effectively during the last financial year to identify, monitor, manage and control all relevant risks.

b) Risk Strategy

The Board is responsible for determining the Bank's overall risk strategy and governance and maintenance of a sound system of risk management and internal controls in accordance with market practices and regulatory requirements. The Board reviews the adequacy of the resources involved in establishing the risk management framework across the Bank and monitors the independence of risk management function throughout the Bank.

The Bank's strategy is to embrace digitalization to empower risk management by utilizing insightful analytics and data-driven models to identify, measure, and respond to risk more quickly and accurately than traditional manual process. The Bank's SME credit model represents a document-less and instant-credit facility approval for better customer journey. The credit model helps resolve the pain-points of small and medium-sized enterprises.

c) Risk Operating Model

To ensure effective risk management, the Bank's risk governance framework is organized based on the principles of the Three Lines of Defense, with the lines being independent from one another:

- The First Line of Defense is provided by business units where risk is taken. They are directly responsible for their operational management on a continuous basis. Business units have primary responsibility for risk identification, assessment, control and supervision.

- The Second Line of Defense is provided by an independent and effective risk management function which defines the norms, standards and procedures associated with the operational risk management framework and provide key indicators and analysis for risk monitoring.

- The Third Line of Defense is provided by an independent and effective internal audit function, which is responsible for, through a risk-based approach, providing assurance on the effectiveness of the operational risk management framework (including the First and Second Lines of Defense).

Corporate Governance and Risk

d) Risk Appetite

Risk Appetite represents the level of risk that the Bank is prepared to assume to achieve its strategic goals. The Bank's approach to its Risk Appetite considers stakeholder roles and responsibilities; steps and methodology which allow the Risk Appetite to be determined, managed and communicated; the formalization of the Risk Appetite in a Risk Appetite Statement; and the methodology for Risk Appetite implementation and monitoring. The Bank's risk appetite is clearly defined and communicated to all relevant business units.

e) Operational Risk Management Principles

1. People Risk Management

The Bank has in place an effective organizational structure and reporting line with staff responsibilities clearly defined. Adequate personnel management systems and measures are in place to ensure staff understand their responsibilities and obligations to comply with laws, rules, regulations and the Bank's policies, and to implement various operational risk management measures. Effective staffing with adequate training resources is in place with the necessary knowledge, qualifications and skills to perform the relevant tasks.

2. Internal Process Risk Management

Policies and procedures for management of operational risk are in place to ensure legal and regulatory requirements are met. Key risk areas in business processes are identified and risk levels assessed. Monitoring measures to mitigate risk are in place and reviewed on a regular basis. Extensive risk assessments are conducted prior to implementing business process, including the launching of new products, and post-implementation assessment systems are in place to conduct periodic reviews of the new processes.

Policies governing outsourcing activities are also in place, covering selection of service providers, performance monitoring, conducting periodic reviews, and compliance with such policies.

3. Technology Risk Management ("TRM")

The Bank has established an effective technology risk management hierarchy, information security hierarchy and related policies and systems to ensure staff are aware of and comply with control requirements. An information technology security mechanism (including cyber security) is in place to monitor the utilization, performance and stability of systems and to detect any abnormal or unauthorized activities.

There are comprehensive control measures to manage the operational risk associated with the process for the acquisition, development, implementation, operations, repair and maintenance of systems. Technology risk is assessed regularly, and steps are taken to continually improve the technology risk management procedures and measures (including cyber security). TRM under the Bank's Risk function is responsible for managing technology risk of the Bank as the second line of defense.

4. Fraud Risk Management ("FRM")

The Bank has established effective fraud risk management mechanisms and ensures all staff are aware of and comply with the control requirements. The three key aspects of the Bank's management of fraud risk are (i) prevention; (ii) events control and handling; and (iii) post incident evaluation and optimization. Fraud risk assessment is conducted for all new products, and continuous analysis and assessment on the fraud risk level and trends is undertaken. Relevant policies and controls are maintained in line with all current fraud related laws and regulations. Systems, particularly data-driven, have been established for the timely identification of suspicious counterparts, clients, and other institutions or individuals. FRM under the Bank's Risk function is responsible for managing fraud risk of the Bank as the second line of defense. With respect to the rising trend of retail and digital fraud, livi has been continuously upgrading our fraud detection and prevention capability including but not limited to widely use biometric authentication, advanced network analytics, etc. In 2023, livi has successfully partnered with law enforcement agencies in multiple anti-scam operations and received multiple letters of appreciations from law enforcement agencies.

5. External Events Risk Management

A Business Continuity Plan ("BCP") protocol has been established in accordance with the Bank's business scale, complexity and operating environment so as to ensure the Bank's required operations can be maintained in the event of an emergency. An appropriate communication system, disaster recovery and backup facility and arrangements to ensure the Bank can promptly and properly handle various emergency or ad hoc events is in place.

Assessments are made of the impact of various external factors on the business, and corresponding management systems or operating guidelines have been established to prevent or minimize the impact of external events such as fraud, robbery, theft, regulatory change, litigation and bankruptcy of suppliers, etc.

Corporate Governance and Risk

f) Climate Risk

Climate change is increasingly recognized as a source of financial risks for financial institutions and corporates, and the HKMA provided high-level guidance to Authorized Institutions to build climate resilience by incorporating climate considerations into governance, strategy, risk management and disclosure. In response, the Bank implemented a Climate Risk Management Framework.

Initially, climate risk is expected to have a minimal impact on the Bank's business operations and exposures as the Bank's retail lending exposures do not have direct exposures to climate risk, and for operational risk, the existing business continuation measures have already considered climate events such as flooding and typhoon. With respect to the business expansion to cover SME segment, livi has also updated the governance, risk assessment and monitoring framework to ensure full compliance with regulation and deliver our social responsibilities.

As the market and regulatory landscape and the Bank's businesses, products and services continue to evolve, the Bank will incorporate climate risk considerations into the future strategy planning and enhancements to the enterprise risk management framework where appropriate.

g) Code of Conduct and Whistleblowing Policy

To ensure the Bank operates to the highest standards of ethical conduct and professional competence, all colleagues are required to follow the Bank's Code of Conduct. In accordance with applicable regulatory guidelines and other industry best practices, the Code sets out the ethical standards and values that all colleagues are expected to adhere to and covers various legal, regulatory, and ethical issues. Regular communications to colleagues are used to remind them of the rules and ethical standards set out in the Code and the requirement to adhere to them.

To reinforce a culture of good business ethics and governance, the Bank has adopted a whistleblowing policy which requires colleagues to report their concerns about improprieties and misconduct in relation to the Bank through a well-defined and independent channel. The AC has responsibility for overseeing the effectiveness of the procedures and for considering any matters that might be raised. The objective of this policy is to encourage the reporting of such matters with confidence and that colleagues when making any reports will be treated fairly.

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Directors' Report

The Directors are pleased to submit their annual report together with the audited financial statements for the year ended 31 December 2023 of Livi Bank Limited ('livi' or the 'Bank').

Financial Review

The Bank recorded a loss of HK$560 million for the year ended 31 December 2023, and the state of the Bank's affairs as at that date are set out on pages 15 to 56 within the financial statements. Further details of the Bank's activities are set out in the Review of 2023 on pages 1 to 3.

The Directors do not recommend any payment of dividend in respect of the year under review.

Directors

a) The Directors serving during the financial year and up to the date of this report:

Mr. LIU Chenggang (Chairperson)
Mr. SUN Dawei (Chief Executive Officer)
Mr. CHENG Chung Ngam (from 12.1.2023)
Mr. CHOO Peng Chee
Mr. GUO Weimin (to 12.1.2023)
Mr. LIANG Yiming *
Mr. PANG Yiu Kai
Mr. Nicholas Robert SALLNOW-SMITH *
Mr. SHEN Jian Guang
Ms. SHIU Barbara *

*Independent Non-Executive Directors

There being no provision in the Bank's Articles of Association requiring the retirement by rotation of Directors, all existing Directors will continue in office.

b) Directors Service Contracts

No Director has a service contract with the Bank which is not determinable within one year without payment of compensation other than the normal statutory compensation.

c) Directors' rights to acquire shares or debentures

At no time during the year under review was the Bank a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

d) Directors' interests in transactions, arrangements and contracts

Save as disclosed in note 6 to the financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Bank was a party during the year under review.

There are no financial, business, family or other material or relevant relationships between members of the Board.

e) Indemnity of Directors

The Directors have been indemnified individually by the Bank against all liabilities incurred by them to the extent permitted by the Bank's Articles of Association and the Companies Ordinance, Chapter 622 of the Laws of Hong Kong. The Bank has also maintained insurance for the benefit of Directors against liability which may lawfully be insured by it.

Deposit Protection

livi is a member of the Deposit Protection Scheme. Eligible deposits taken by livi are protected by the scheme up to a limit of HK$500,000 per depositor.

Place of Business

The Bank is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 28 Floor, Oxford House, 979 King's Road, Quarry Bay, Hong Kong.

Share Capital

On 21 September 2023, the Bank allotted and issued 992 million new ordinary shares in the capital of the Bank at a subscription price of HK$1.00 per share. The shares issued are used to strengthen the capital adequacy of the Bank.

Other Equity Instruments

In May 2023, the Bank issued HK$800 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there are no fixed redemption date and are not callable within the first 5 years. They are 9.8% per annum payable in arrears five years after the drawdown date which may be cancellable at the sole discretion of the Bank.

Major Share Ownership

The Bank is a wholly-owned subsidiary of Livi Holdings Limited, which is a joint venture among: BOC Hong Kong (Holdings) Limited, which holds a 49.91% interest; the Jardine Matheson Group (through JSH Virtual Ventures Holdings Limited) which holds a 26.36% interest; and Jingdong Technology Holding Co., Ltd (through JD New Orbit Technology (Hong Kong) Limited) which holds a 23.73% interest.

Debentures
No debentures were issued by the Bank during the year under review.

Equity-linked agreements
No equity-linked agreements were issued by the Bank during the year or subsisted at the end of the year.

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 financial year.

Related Party Transactions
Material related party transactions undertaken during the year under review are disclosed in note 25 to the financial statements.

Complex Structures
The Bank does not hold any structured entity as of the date of the financial statements.

Auditor
The financial statements for the year ended 31 December 2023 have been audited by Ernst & Young who will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for reappointment.

On behalf of the Board

LIU Chenggang
Chairman
26 March 2024

INDEPENDENT AUDITOR'S REPORT

EY 安永

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

To the member of LIVI BANK LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Livi Bank Limited (the "Bank") set out on pages 15 to 56, which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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.

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. Our report is made 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 judgement 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
To the member of LIVI BANK LIMITED
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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.

We communicate with the board of directors 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.

Certified Public Accountants
Hong Kong
26 March 2024

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 HK$'000	2022 HK$'000
Operating income			
Interest income		184,614	39,193
Interest expense		(77,011)	(30,422)
Net interest income	4	**107,603**	**8,771**
Fee and commission income		33,977	24,473
Fee and commission expense		(20,506)	(14,866)
Net fee and commission income		**13,471**	**9,607**
Other income/(expense)		**4,361**	**(974)**
TOTAL OPERATING INCOME		**125,435**	**17,404**
Operating expenses			
Staff costs	5	(243,968)	(265,581)
Legal and professional fees		(5,404)	(14,699)
Auditor's remuneration		(1,975)	(2,425)
Depreciation on property, plant and equipment	14	(28,722)	(37,134)
Amortisation of intangible assets	15	(119,589)	(109,062)
Other operating expenses	7	(194,731)	(281,338)
TOTAL OPERATING EXPENSES		**(594,389)**	**(710,239)**
Net operating loss before net charges of impairment losses		**(468,954)**	**(692,835)**
Net charges of impairment losses	8	(91,414)	(22,275)
LOSS FOR THE YEAR		**(560,368)**	**(715,110)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Financial assets at fair value through other comprehensive income ("FVOCI"):			
– Fair value changes		(401)	2,108
– Impairment losses recognised/(released)		94	(94)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(307)**	**2,014**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(560,675)**	**(713,096)**

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	Notes	2023 HK$'000	2022 HK$'000
Assets			
Cash and balances with banks	10	269,806	445,546
Placements with banks	11	359,809	–
Financial investments	12	2,430,153	2,004,218
Loans and advances to customers	13	1,573,706	1,303,994
Property, plant and equipment	14	41,750	69,868
Intangible assets	15	176,474	241,344
Prepayments and other assets		43,488	32,728
TOTAL ASSETS		**4,895,186**	**4,097,698**
Liabilities			
Customer deposits	16	2,191,192	3,098,385
Balances from banks		350,038	–
Repurchase agreement	17	200,000	–
Lease liabilities		25,431	37,918
Other liabilities and provisions		117,609	180,880
TOTAL LIABILITIES		**2,884,270**	**3,317,183**
NET ASSETS		**2,010,916**	**780,515**
Equity			
Share capital	18	3,792,000	2,800,000
Other equity instruments	20	799,076	–
Reserves		(2,580,160)	(2,019,485)
TOTAL EQUITY		**2,010,916**	**780,515**

Liu Chenggang
Chairman

Sun Dawei
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital HK$'000	Accumulated losses HK$'000	FVOCI reserve HK$'000	Other equity instruments HK$'000	Total HK$'000
At 1 January 2022	2,500,000	(1,306,068)	(321)	–	1,193,611
Loss for the year	–	(715,110)	–	–	(715,110)
Change in fair value on financial assets at FVOCI	–	–	2,108	–	2,108
Impairment losses released	–	–	(94)	–	(94)
Total comprehensive income/(loss) for the year	–	(715,110)	2,014	–	(713,096)
Issue of share capital	300,000	–	–	–	300,000
At 31 December 2022	**2,800,000**	**(2,021,178)**	**1,693**	**–**	**780,515**
At 1 January 2023	2,800,000	(2,021,178)	1,693	–	780,515
Loss for the year	–	(560,368)	–	–	(560,368)
Change in fair value on financial assets at FVOCI	–	–	(401)	–	(401)
Impairment losses recognised	–	–	94	–	94
Total comprehensive loss for the year	–	(560,368)	(307)	–	(560,675)
Issue of share capital	992,000	–	–	–	992,000
Issue of other equity instruments	–	–	–	799,076	799,076
At 31 December 2023	**3,792,000**	**(2,581,546)**	**1,386**	**799,076**	**2,010,916**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 HK$'000	2022 HK$'000
Cash flows from operating activities		
Loss for the year	**(560,368)**	**(715,110)**
Adjustments for non-cash items:		
Depreciation on property, plant and equipment	28,722	37,134
Amortisation of intangible assets	119,589	109,062
Loss on disposal of intangible assets	12,482	–
Net charges of impairment losses	91,414	22,275
Interest expenses on lease liabilities	1,494	1,945
	(306,667)	(544,694)
Changes in operating assets and liabilities		
Decrease/(increase) in placements with banks with an original maturity beyond three months	(100,000)	195,000
Decrease/(increase) in financial investments with an original maturity beyond three months	(1,107,200)	489,623
Increase in loans and advances to customers	(359,922)	(1,232,020)
Decrease/(increase) in prepayments and other assets	(13,657)	1,759
Increase/(decrease) in customer deposits	(907,193)	121,477
Increase in balances from banks	350,038	–
Increase in repurchase agreement	200,000	–
Increase/(decrease) in other liabilities and provisions	(62,127)	48,991
Net cash flows used in operating activities	**(2,306,728)**	**(919,864)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(69)	(4,734)
Purchase of intangible assets	(67,201)	(114,416)
Net cash flows used in investing activities	**(67,270)**	**(119,150)**
Cash flows from financing activities		
Issue of ordinary share capital	992,000	300,000
Issue of other equity instruments	799,076	–
Payment of lease liabilities	(13,982)	(15,586)
Net cash flows generated from financing activities	**1,777,094**	**284,414**

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 HK$'000	2022 HK$'000
Net decrease in cash and cash equivalents		(596,904)	(754,600)
Cash and cash equivalents at beginning of year		1,715,183	2,469,783
Cash and cash equivalents at end of year	21	**1,118,279**	**1,715,183**
Cash flows from operating activities included			
– Interest received		113,751	24,573
– Interest paid		72,351	16,757

Refer to note 17 for financial assets transferred to counterparty as collateral under repurchase agreement.

NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2023

1. GENERAL INFORMATION

Livi Bank Limited (the "Bank") operates a virtual banking business in Hong Kong after being granted the license by the HKMA on 27 March 2019. The address of the Bank's registered office is 28th floor, Oxford House, 979 King's Road, Quarry Bay, Hong Kong.

Information on the Bank's structure is provided in note 19. Information on other related party relationships of the Bank is provided in note 25.

2.1 BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for financial assets at FVOCI which have been measured at fair value. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand unless otherwise stated.

(i) Standards, amendments and interpretations adopted during the year

The Bank has adopted the following revised HKFRSs and HKASs for the first time for the current year's financial statements. None of the revised accounting standards have a material impact on the financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

2.1 BASIS OF PREPARATION (CONTINUED)

(ii) Issued but not yet effective standards, amendment and interpretation

The Bank has not applied the following revised HKFRSs and HKASs that have been issued but are not yet effective in these financial statements.

Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the "2020 Amendments")[1, 2]
Amendments to HKAS 1	Non-current Liabilities with Covenants (the "2022 Amendments")[1]

1 Effective for annual periods beginning on or after 1 January 2024

2 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

The Bank expects to adopt the amendments when they become effective. The amendments are not expected to have any significant impact on the Bank's financial statements.

2.2 MATERIAL ACCOUNTING POLICIES

(a) Functional currency

The financial statements are presented in Hong Kong dollars, which is the Bank's functional currency.

(b) Foreign currencies

Transactions in foreign currency are recorded at the rate of exchange on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary assets and liabilities are measured at historical cost that are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in profit or loss depending on where the gain or loss on the underlying item is recognised.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments

(i) Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as placements with banks, are measured at amortised cost. In addition, all financial liabilities are measured at amortised cost. The Bank accounts for regular way purchased or acquired amortised cost financial instruments using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. They are normally derecognised when the rights to receive cash flows from the asset have expired. In the course of financing its business, the Bank enters into arrangements which involve the sale of securities with agreements to repurchase. Securities given as collateral for repurchase agreements are generally not derecognized from the statement of financial position since the Bank retains substantially all the risks and rewards of these securities. Amounts received under repurchase agreements are recognized as financial liabilities.

(ii) Financial assets measured at FVOCI

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise debt instruments. They are recognised on the trade date, that is, the date that the Bank commits to purchase the asset. They are subsequently remeasured at fair value and recognised in other comprehensive income until the assets are sold. They are normally derecognised when they are either sold or redeemed. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in profit or loss. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(d) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(d) Fair value measurement (continued)

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(e) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Bank has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised from the statement of financial position when and only when the obligation specified in the contract is discharged, cancelled or expires.

(f) Impairment of financial assets

The Bank recognises an allowance for Expected Credit Losses ("ECLs") for all financial assets including balances and placements with banks, loans and advances to customers and debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of financial assets (continued)

General approach

Financial instruments are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

(g) Offsetting of financial instruments

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

In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

(h) Revenue recognition

Revenues are recognised when the promised services are delivered to the Banks' customers, in an amount that is based on the consideration the Bank expects to receive in exchange for those services when such amounts are not probable of significant reversal.

(i) Interest income and expense

Interest income for financial assets held at either FVOCI or amortised cost, and interest expense on all financial liabilities held at amortised cost are recognised in profit or loss using the effective interest method.

(ii) Fee and commission income and expense

Fee and commission income and expense results from transaction-based arrangements in which the service is charged a fee for the execution of transactions. Such revenues primarily arise from interchange fee and incentive income. Fee and commission income is recognised on trade date when the performance obligation is satisfied or is recognised based on the completed progress of the performance obligation over time, when applicable.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to write off the cost of items of property, plant and equipment to their residual values, if any, over their estimated useful lives as follows:

Leasehold improvements	Over the shorter of the lease terms or 5 years
Computer equipment	3 – 5 years
Office equipment and furniture and fixtures	2 – 3 years

Residual values, useful lives and the depreciation method are reviewed annually.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the disposal or retirement of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Intangible assets

Intangible assets include both purchased and internally generated software and are stated at cost less accumulated amortisation and impairment losses.

Software is recognised when it is separable or arise from contractual or other legal rights, and it is probable that future economic benefits will flow to the Bank, the cost of which can be measured reliably. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets with finite lives are amortised over the shorter of the license period or a useful life of 3 to 5 years and are subject to impairment testing (see impairment of non-financial assets).

(k) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with banks and Exchange Fund Bills which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(n) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank has lease contracts for various items of properties used in its operations as lessee. Leases of properties have lease terms of 3 years. Generally, the Bank is restricted from assigning and subleasing the leased assets.

The Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section “Impairment of non-financial assets”.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include the penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

The Bank uses its incremental borrowing rate at the lease commencement date to calculate the present value of lease payments as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(n) Leases (continued)

The Bank as a lessee (continued)

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

(o) Provisions and commitments

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation, with its carrying amount reflecting the present value of those cash flows, where the effect of discounting is material.

The commitment is any legal obligation to potentially make or receive cash payments or transfer cash. Commitments are not recognised in the financial statements. Disclosure is made unless the probability of settlement is remote.

(p) Employee benefits

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

Pension scheme

The Bank operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance ("MPFSO") for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Bank in an independently administered fund. The employees are entitled to receive 100% of the Bank's employer contributions upon retirement, early retirement or termination of employment after completing 10 years of service. In addition to the Bank's employer mandatory contributions, employees with 3 to 9 years of service are entitled to receive the Bank's employer voluntary contributions at a scale ranging from 30% to 90% upon termination of employment for reasons other than summary dismissal. All the Bank's employer contributions received by employees are subject to the MPFSO.

2.2 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(q) Related parties

A party is considered to be related to the Bank if:

(I) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Bank;
- (ii) has significant influence over the Bank; or
- (iii) is a member of the key management personnel of the Bank or of a parent of the Bank;

Or

(II) the party is an entity where any of the following conditions applies:

- (i) the entity and the Bank are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Bank are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
- (vi) the entity is controlled or jointly controlled by a person identified in (I);
- (vii) a person identified in (I) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Leases – Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in its leases and therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank "would have to pay", which requires estimation when no observable rates are available (such as for a subsidiary that does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

(ii) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2023 was HK$2,717,967,000 (2022: HK$2,259,187,000). Further details are contained in note 9 to the financial statements.

(iii) 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. The assessment of the risk of default and expected loss rates is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(iv) Capitalisation of intangible assets

Capitalised software and work-in-progress are intangible assets developed with external parties. Management exercises judgement in determining that the intangible asset meets the criteria to be capitalised as intangible assets in accordance with applicable accounting framework. Management also exercises judgement in determining the proportion of costs that are directly attributable to the development of intangible assets.

(v) Impairment of capitalised software and work-in-progress

Intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an impairment is required, the recoverable amount is determined based on value-in-use calculations prepared using management's assumptions and estimates.

(vi) Amortisation of intangible assets and depreciation on property, plant and equipment

Amortisation and depreciation are provided to write down assets to their residual values over their estimated useful lives. The determination of these residual values and estimated lives, and any change to the residual values or estimated lives, requires the exercise of management judgement.

4. NET INTEREST INCOME

	2023 HK$'000	2022 HK$'000
Interest income from financial assets measured at amortised cost	120,642	23,986
Interest income from financial assets measured at FVOCI	63,972	15,207
Total interest income	184,614	39,193
Interest expense on financial liabilities measured at amortised cost	(75,517)	(28,477)
Interest expense on lease liabilities	(1,494)	(1,945)
Total interest expense	(77,011)	(30,422)
Net interest income	107,603	8,771

5. STAFF COSTS

	2023 HK$'000	2022 HK$'000
Salaries and bonuses	230,901	249,934
Pension costs – defined contribution plans	3,430	8,088
Others*	9,637	7,559
Total staff costs	243,968	265,581

* Includes shareholders' recharges for secondment staff

6. DIRECTORS' REMUNERATION

Directors are also the key management personnel of the Bank. Directors' remuneration disclosed pursuant to section 383(1)(a) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2023 HK$'000	2022 HK$'000
Directors' fees	1,800	1,800
Other emoluments		
– Salaries and short-term employee benefits	4,699	4,762
	6,499	6,562

7. OTHER OPERATING EXPENSES

	2023 HK$'000	2022 HK$'000
Information technology expenses*	109,914	110,541
Marketing expenses	58,161	131,618
Others	26,656	39,179
Other operating expenses	194,731	281,338

* Includes the expenses incurred for software development including user acceptance testing and system interface testing not qualified for capitalisation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

8. NET CHARGES OF IMPAIRMENT LOSSES

	2023 HK$'000	2022 HK$'000
Cash and balances with banks and placements with banks	(113)	(115)
Financial investments		
at FVOCI	95	(94)
at amortised cost	4	20
Loans and advances to customers (Note 13)	90,210	16,185
Other assets	2,897	431
Loan commitments	(1,679)	5,848
Net charges of impairment losses	91,414	22,275

9. INCOME TAX

No provision for Hong Kong profits tax has been made in current year as the Bank did not generate any assessable profits arising in Hong Kong during the year.

A reconciliation of the tax expense applicable to loss before tax at the statutory rate to the tax expense at the effective tax rate, is as follows:

	2023		2022	
	HK$'000	%	HK$'000	%
Loss before tax	(560,368)		(715,110)	
Tax loss at the statutory tax rate	(92,461)	(16.5)	(117,993)	(16.5)
Estimated tax effect of non-deductible expenses	24,712	4.4	24,425	3.4
Estimated tax effect of unrecognised temporary differences	(7,950)	(1.4)	(18,519)	(2.6)
Estimated tax effect of tax losses not recognised	75,699	13.5	112,087	15.7
Tax charge at the effective rate	–	–	–	–

The Bank had tax losses arising in Hong Kong of approximately HK$2,717,967,000 (2022: HK$2,259,187,000), that are available indefinitely for offset against future taxable profits of the Bank. Deferred tax assets have not been recognised in respect of these losses as there is not sufficient evidence that taxable profits will be available against which the tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

10. CASH AND BALANCES WITH BANKS

	2023 HK$'000	2022 HK$'000
Cash and balances with banks – Stage 1	269,895	445,780
Less: Allowances for impairment losses – Stage 1	(89)	(234)
	269,806	445,546

11. PLACEMENTS WITH BANKS

	2023 HK$'000	2022 HK$'000
Placements with banks – Stage 1	359,841	–
Less: Allowances for impairment losses – Stage 1	(32)	–
	359,809	–

12. FINANCIAL INVESTMENTS

	2023 HK$'000	2022 HK$'000
At FVOCI:		
Debt securities – Stage 1	2,233,535	1,833,580
Add: Revaluation gains	1,166	1,567
	2,234,701	1,835,147
At amortised cost:		
Certificate of deposits – Stage 1	195,520	169,135
Less: Allowances for impairment losses – Stage 1	(68)	(64)
	195,452	169,071
	2,430,153	2,004,218

13. LOANS AND ADVANCES TO CUSTOMERS

	2023 HK$'000	2022 HK$'000
Loans and advances to customers	1,624,743	1,318,459
Less: Allowances for impairment losses	(51,037)	(14,465)
	1,573,706	1,303,994

Reconciliation of allowances for impairment losses and gross amount for loans and advances to customers is as follows:

	2023			
Allowances for impairment losses	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2023	5,645	3,487	5,333	14,465
Transfer to Stage 1	9	(9)	–	–
Transfer to Stage 2	(71)	71	–	–
Transfer to Stage 3	(642)	(3,194)	3,836	–
Changes arising from transfer of stage	(9)	3,833	25,560	29,384
Net charge for the year*	15,592	7,284	37,950	60,826
Write-offs	–	–	(54,678)	(54,678)
Recoveries	–	–	1,040	1,040
At 31 December 2023	20,524	11,472	19,041	51,037
Charge to profit or loss (Note 8)				90,210

	2023			
Gross loans and advances to customers	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2023	1,308,816	4,042	5,601	1,318,459
Transfer to Stage 1	408	(408)	–	–
Transfer to Stage 2	(6,903)	6,903	–	–
Transfer to Stage 3	(24,585)	(3,634)	28,219	–
Net change in exposures	309,269	10,414	41,279	360,962
Write-offs	–	–	(54,678)	(54,678)
At 31 December 2023	1,587,005	17,317	20,421	1,624,743

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2022			
Allowances for impairment losses	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2022	3,186	163	640	3,989
Transfer to Stage 1	9	(9)	–	–
Transfer to Stage 2	(26)	26	–	–
Transfer to Stage 3	(250)	(154)	404	–
Changes arising from transfer of stage	(8)	87	2,739	2,818
Net charge for the year*	25,131	1,159	7,528	33,818
Write-offs	–	–	(5,833)	(5,833)
Recoveries	–	–	124	124
Changes in model**	(22,397)	2,215	(269)	(20,451)
At 31 December 2022	5,645	3,487	5,333	14,465
Charge to profit or loss (Note 8)				16,185

	2022			
Gross loans and advances to customers	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2022	90,994	514	640	92,148
Transfer to Stage 1	28	(28)	–	–
Transfer to Stage 2	(304)	304	–	–
Transfer to Stage 3	(2,475)	(445)	2,920	–
Net change in exposures	1,220,573	3,697	7,874	1,232,144
Write-offs	–	–	(5,833)	(5,833)
At 31 December 2022	1,308,816	4,042	5,601	1,318,459

* The balance comprises net charge for new loans and advances to customers originated, brought forward loans and advances to customers without stage transfer and loans and advances to customers derecognized or repaid.

** Resulted from the model enhancement in the context of actual loss experience.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Computer equipment HK$'000	Office equipment and furniture and fixtures HK$'000	Right-of-use assets HK$'000	Total HK$'000
Cost					
At 1 January 2023	21,503	83,437	936	82,454	188,330
Additions	–	69	–	535	604
At 31 December 2023	21,503	83,506	936	82,989	188,934
Accumulated depreciation					
At 1 January 2023	13,910	58,174	896	45,482	118,462
Charge for the year	4,096	11,725	40	12,861	28,722
At 31 December 2023	18,006	69,899	936	58,343	147,184
Net book value					
At 31 December 2023	3,497	13,607	–	24,646	41,750
Cost					
At 1 January 2022	21,503	78,709	936	89,881	191,029
Additions	–	4,728	–	3,410	8,138
Disposals	–	–	–	(4,757)	(4,757)
Lease modification	–	–	–	(6,080)	(6,080)
At 31 December 2022	21,503	83,437	936	82,454	188,330
Accumulated depreciation					
At 1 January 2022	9,343	40,771	668	35,303	86,085
Charge for the year	4,567	17,403	228	14,936	37,134
Disposals	–	–	–	(4,757)	(4,757)
At 31 December 2022	13,910	58,174	896	45,482	118,462
Net book value					
At 31 December 2022	7,593	25,263	40	36,972	69,868

15. INTANGIBLE ASSETS

The Bank recognised intangible assets which included separately acquired software and systems developed with external parties.

	Software HK$'000
Cost	
At 1 January 2023	476,168
Additions	67,201
Disposals	(17,110)
At 31 December 2023	526,259
Accumulated amortisation	
At 1 January 2023	234,824
Amortisation for the year	119,589
Disposals	(4,628)
At 31 December 2023	349,785
Net book value	
At 31 December 2023	176,474
Cost	
At 1 January 2022	361,752
Additions	114,416
At 31 December 2022	476,168
Accumulated amortisation	
At 1 January 2022	125,762
Amortisation for the year	109,062
At 31 December 2022	234,824
Net book value	
At 31 December 2022	241,344

16. CUSTOMER DEPOSITS

	2023 HK$'000	2022 HK$'000
Savings accounts	642,166	948,997
Time deposits	1,549,026	2,149,388
	2,191,192	3,098,385

17. TRANSFERS OF FINANCIAL ASSETS

The following table analyses the carrying amount of the financial assets transferred to counterparty as collateral under repurchase agreements that do not qualify for derecognition and their associated financial liabilities:

	2023		2022	
	Carrying amount of transferred assets HK$'000	Carrying amount of associated liabilities HK$'000	Carrying amount of transferred assets HK$'000	Carrying amount of associated liabilities HK$'000
Repurchase agreement	201,739	200,000	–	–

18. SHARE CAPITAL

	2023		2022	
	Number of shares	Share capital HK$'000	Number of shares	Share capital HK$'000
Ordinary shares, issued and fully paid:				
At 1 January	2,800,000,000	2,800,000	2,500,000,000	2,500,000
Issuance of shares	992,000,000	992,000	300,000,000	300,000
At 31 December	3,792,000,000	3,792,000	2,800,000,000	2,800,000

Note: During the year, a total of 992,000,000 ordinary shares have been issued for a total consideration of HK$992,000,000.

19. GROUP INFORMATION

Holding company

The immediate and ultimate holding company of the Bank is Livi Holdings Limited which owns 100% of the Bank's ordinary shares.

Entities with significant influence over the Bank

The ordinary shares of the immediate holding company are owned by BOC Hong Kong (Holdings) Limited (49.9%) (2022: 39.3%), JSH Virtual Ventures Holdings Limited (26.4%) (2022: 28.6%) and JD New Orbit Technology (Hong Kong) Limited (23.7%) (2022: 32.1%). The shareholders of the immediate holding company of the Bank are considered as the entities with significant influence over the Bank.

20. OTHER EQUITY INSTRUMENTS

	2023 HK$'000	2022 HK$'000
Undated non-cumulative subordinated Additional Tier 1 capital securities	799,076	–

In May 2023, the Bank issued HK$800 million undated non-cumulative subordinated Additional Tier 1 capital securities. The capital securities are perpetual securities in respect of which there is no fixed redemption date and are not callable within the first 5 years. They have an initial rate of distribution of 9.80% per annum payable in arrears which may be cancelled at the sole discretion of the Bank.

21. CASH AND CASH EQUIVALENTS

(a) Analysis of balances of cash and cash equivalents

	2023 HK$'000	2022 HK$'000
Cash and balances with banks	269,895	445,780
Placements with banks with an original maturity within three months	259,841	–
Exchange Fund Bills with an original maturity within three months	588,543	1,269,403
	1,118,279	1,715,183

(b) Reconciliation with the statement of financial position

	2023 HK$'000	2022 HK$'000
Cash and balances with banks	269,806	445,546
Placements with banks	359,809	–
Financial investments	2,430,153	2,004,218
Amounts shown in the statement of financial position	3,059,768	2,449,764
Less: Amounts with an original maturity of beyond three months	(1,941,678)	(734,879)
Add: Allowances for impairment losses	189	298
Cash and Cash equivalents in the statement of cash flows	1,118,279	1,715,183

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

21. CASH AND CASH EQUIVALENTS (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities arising from financial activities, including both cash and non-cash changes. Liabilities arising from financial activities are liabilities for which cash flows were, or future cash flows will be, classified in the Bank's cash flow statements as cash flows from financial activities.

	HK'000
At 1 January 2022	54,235
Changes from financing cash flows	
Principal portion of lease payments	(13,641)
Interest element on lease liabilities	(1,945)
Total changes from financing cash flows	(15,586)
Other changes:	
Interest expense on lease liabilities	1,945
Addition to lease liabilities	3,404
Lease modification	(6,080)
At 31 December 2022 and 1 January 2023	37,918
Changes from financing cash flows	
Principal portion of lease payments	(12,487)
Interest element on lease liabilities	(1,494)
Total changes from financing cash flows	(13,981)
Other changes:	
Interest expense on lease liabilities	1,494
At 31 December 2023	25,431

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

22. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

	2023		
	Less than or equal to twelve months HK$'000	More than twelve months HK$'000	Total HK$'000
Assets			
Cash and balances with banks	269,806	–	269,806
Placements with banks	359,809	–	359,809
Financial investments	2,278,754	151,399	2,430,153
Loans and advances to customers	806,630	767,076	1,573,706
Property, plant and equipment	–	41,750	41,750
Intangible assets	–	176,474	176,474
Prepayments and other assets	31,653	11,835	43,488
	3,746,652	1,148,534	4,895,186
Liabilities			
Customer deposits	2,191,192	–	2,191,192
Balances from banks	350,038	–	350,038
Repurchase agreement	200,000	–	200,000
Lease liabilities	13,079	12,352	25,431
Other liabilities and provisions	110,571	7,038	117,609
	2,864,880	19,390	2,884,270

22. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

	2022		
	Less than or equal to twelve months HK$'000	More than twelve months HK$'000	Total HK$'000
Assets			
Cash and balances with banks	445,546	–	445,546
Financial investments	1,943,134	61,084	2,004,218
Loans and advances to customers	903,161	400,833	1,303,994
Property, plant and equipment	–	69,868	69,868
Intangible assets	–	241,344	241,344
Prepayments and other assets	21,497	11,231	32,728
	3,313,338	784,360	4,097,698
Liabilities			
Customer deposits	3,098,385	–	3,098,385
Lease liabilities	12,487	25,431	37,918
Other liabilities and provisions	174,267	6,613	180,880
	3,285,139	32,044	3,317,183

23. FINANCIAL INSTRUMENTS BY CATEGORY

The following table analyses financial assets and financial liabilities as presented in the statement of financial position by HKFRS 9 classifications.

Financial assets

	2023		
	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Cash and balances with banks	–	269,806	269,806
Placements with banks	–	359,809	359,809
Financial investments	2,234,701	195,452	2,430,153
Loans and advances to customers	–	1,573,706	1,573,706
Accrued interest and other assets	–	30,820	30,820
	2,234,701	2,429,593	4,664,294

	2022		
	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Cash and balances with banks	–	445,546	445,546
Financial investments	1,835,147	169,071	2,004,218
Loans and advances to customers	–	1,303,994	1,303,994
Accrued interest and other assets	–	20,690	20,690
	1,835,147	1,939,301	3,774,448

23. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Financial liabilities at amortised cost	
	2023 HK$'000	2022 HK$'000
Customer deposits	2,191,192	3,098,385
Balances from banks	350,038	–
Repurchase agreement	200,000	–
Lease liabilities	25,431	37,918
Other liabilities	105,861	166,124
	2,872,522	3,302,427

24. FAIR VALUE OF ASSETS AND LIABILITIES

Financial instruments measured at fair value – fair value hierarchy

Financial assets

	2023			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Debt securities at FVOCI	2,016,116	218,585	–	2,234,701

	2022			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Debt securities at FVOCI	1,698,100	137,047	–	1,835,147

At 31 December 2023 and 2022, the Bank's financial assets and financial liabilities at amortised cost are primarily repayable within 12 months. The carrying amounts of these financial assets and financial liabilities approximate their fair values.

25. RELATED PARTY TRANSACTIONS

(a) The Bank had the following material transactions with entities of significant influence over the Bank during the year. These transactions were made on terms equivalent to normal commercial terms.

	Note	2023 HK$'000	2022 HK$'000
Interest income		1,574	126
Interest expense		640	497
Fee income		4,295	53
Fee expense		1,490	–
Other income	(i)	4,762	–
Operating expenses	(ii)	29,397	45,271
Net purchase of intangible assets		–	699

Outstanding balances with entities of significant influence over the Bank:

	Note	2023 HK$'000	2022 HK$'000
Cash and balances with banks		32,566	30,435
Placements with banks		185,625	–
Prepayments and other assets	(iii)	3,230	1,786
Balances from banks		350,038	–
Other liabilities	(iii)	20,894	9,700
Other equity instruments		800,000	–

(i) Other income related to transfer of assets to related parties during the year.
(ii) Operating expenses relate to services received including information technology, staff and marketing expenses.
(iii) The outstanding balances are unsecured and non-interest bearing.

(b) Key management personnel remuneration

Key management personnel of the Bank are directors and senior management having authority and responsibility for planning, directing and controlling the activities of the Bank. Their remunerations are as follows:

	2023 HK$'000	2022 HK$'000
Salaries and short-term employee benefits	20,863	23,155
Pension scheme contributions	601	675
	21,464	23,830

25. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Loans to a director

Particulars of an amount due from a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	2023 HK$'000	2022 HK$'000
Aggregate amount of relevant transactions outstanding at year end	22	41
Maximum aggregate amount of relevant transactions outstanding during the year	49	41

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's principal financial instruments comprise cash and balances with banks, placements with banks, financial investments and loans and advances to customers. The Bank has various other financial liabilities such as customer deposits, balances from bank, repurchase agreement, lease liabilities and other liabilities, which arise directly from its operations.

The main risks arising from the Bank's financial instruments are market risk, interest rate risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk management

Market risk is the risk of loss in the Bank's on- and off- balance sheet positions resulting from adverse movements in market prices and rates. The Bank manages market risk according to the Bank's risk appetite and pre-defined strategy, supported by a well-established risk management regime and related measures.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional units perform their duties and responsibilities to manage the Bank's market risk. Risk Management Department is the unit primarily responsible for managing market risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the market risk profile and compliance of internal policies and limits.

The Bank has established indicators and limits to identify, measure, monitor and control market risk. These limits are subject to appropriate internal approval and are monitored regularly.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk management (continued)

The Bank's major foreign currency exposures include USD and RMB. The following table is the foreign currency position of the Bank prepared in accordance with the HKMA Return "MA(BS)6: Return of Foreign Currency Position":

	2023		2022	
	USD HK$ Million	RMB HK$ Million	USD HK$ Million	RMB HK$ Million
Net long/(short) position	178	3	130	(11)

At 31 December 2023, if HKD had strengthened/weakened 5% against RMB with all other variables held constant, the Bank would have made an additional loss/gain of HK$183,574 (2022: an additional gain/loss of HK$527,000). Under the linked exchange rate system, USD is considered to have limited currency risk.

Interest rate risk management

Interest rate risk means the risk to the Bank's earnings and economic value arising from movements in interest rates and term structures of the Bank's asset and liability position. The major types of interest rate risk exposed to the Bank are:

- Gap risk: changes in the interest rates on instruments of different maturities;
- Basis risk: imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics; and
- Option risk: exercise of interest rate option derivatives or optional elements embedded in assets, liabilities and/or off-balance sheet instruments which could alter the level and timing of corresponding cash flows.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional units perform their duties and responsibilities to manage the Bank's interest rate risk. Risk Management Department is the main responsible unit in managing interest rate risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the interest rate risk profile and compliance of internal policies and limits.

The Bank sets up indicators and limits to identify, measure, monitor and control interest rate risk. These limits are subject to appropriate internal approval and are monitored regularly.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk management (continued)

Change in Net Interest Income ("ΔNII") and Economic Value of Equity ("ΔEVE") assess the impact of interest rate movement on the Bank's net interest income and Tier 1 capital respectively. The methods and assumptions used for the calculation of ΔNII and ΔEVE are in accordance with the HKMA's Supervisory Policy Manual IR-1 Interest Rate Risk in the Banking Book. The following table illustrates the impact of a 200 basis point parallel rate shock up/down of the yield curves on the Bank's earnings and economic value of equity.

	Increase / (Decrease) in Net Interest Income over the next 12 months		Increase / (Decrease) in Economic Value of Equity	
	2023	2022	2023	2022
	HK$ Million	HK$ Million	HK$ Million	HK$ Million
200 basis point parallel rate shock up of yield curves:				
HK Dollar	7	2	(51)	(15)
US Dollar	3	3	–	–
RMB	–	–	(1)	–
200 basis point parallel rate shock down of yield curves:				
HK Dollar	(7)	(2)	53	15
US Dollar	(3)	(3)	–	–
RMB	–	–	1	–

Liquidity risk management

Liquidity risk is defined as the risk that the Bank does not have available sufficient financial resources, in the short, medium or long term, to meet its obligations, or can only access those resources at excessive cost.

The Bank's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. The Bank builds and maintains deposits and obtains funding from the interbank market where necessary to diversify the funding source. The Bank has also formulated a contingency funding plan that is tested regularly.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional departments or units perform their duties and responsibilities to manage the Bank's liquidity risk. Risk Management Department is the unit primarily responsible for managing liquidity risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the liquidity risk profile and compliance of internal policies and limits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk management (continued)

The Bank has established indicators and limits to identify, measure, monitor and control liquidity risk. These limits are subject to appropriate internal approval and are monitored regularly.

The maturity profile of the financial liabilities of the Bank at the end of the reporting year, based on the contractual undiscounted payments, is as follows:

	2023				
	Repayable on demand HK$'000	1-3 months HK$'000	3-12 months HK$'000	Over 12 months HK$'000	Total HK$'000
Customer deposits	644,069	791,264	773,603	17,771	2,226,707
Balances from banks	350,038	–	–	–	350,038
Repurchase agreement	–	200,000	–	–	200,000
Lease liabilities	–	3,495	10,486	12,636	26,617
Other liabilities	3,678	83,133	1,070	–	87,881
	997,785	1,077,892	785,159	30,407	2,891,243

	2022				
	Repayable on demand HK$'000	1-3 months HK$'000	3-12 months HK$'000	Over 12 months HK$'000	Total HK$'000
Customer deposits	950,163	865,831	1,296,778	25,622	3,138,394
Lease liabilities	–	3,495	10,486	26,618	40,599
Other liabilities	1,014	151,765	–	–	152,779
	951,177	1,021,091	1,307,264	52,240	3,331,772

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk Management

Credit risk management is to maximise the Bank's risk-adjusted rate of return by properly controlling the Bank's credit risk exposure.

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures may exists throughout the lending, trading and investment activities of the Bank, including both on- and off-balance sheet transactions. The credit risk management and control of the Bank are centrally managed by a credit risk management team, which reports regularly to the Chief Executive, Board Risk Committee and/or Board of Directors.

The Bank formulates policies and procedures to identify, measure, assess, monitor, control, and report on credit risk; development of which are based on robust assessment of the Bank's business activities, strategies and risk appetite. Credit policies cover identified material risks (both financial and non-financial), and comply with regulatory guidelines and statutory requirements. These guidelines are reviewed and enhanced regularly in response to market changes, statutory requirements and effectiveness of risk management processes.

Risk Management Department is responsible for implementing the credit risk strategy approved by the Board Risk Committee and developing policies and procedure for identifying, measuring, monitoring and controlling credit risk in all the Bank's credit activities.

The maximum exposure of the Bank's financial assets equals to the amount disclosed in the statement of financial position.

For cash and balances with banks, inter-bank placements and investments in debt instruments issued by banks and corporates, credit risk arises from potential default of the counterparties. To mitigate the risk exposure therein, the Bank's policy is to place such funds with selected financial institutions with strong credit ratings by international-rating agencies.

For loans and advances to customers, the Bank adopts loan classification criteria which divides credit assets into five categories with reference to the HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Bank's recoverability of the loan principal and interest. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk Management (continued)

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment. The Bank is relying heavily on available security. This would include loans where some loss of principal or interest is possible after taking account of the "net realisable value" of security, and rescheduled loans where concessions have been made to a customer on interest or principal such as to render the loan "non-commercial" to the Bank.

"Doubtful" represents loans where collection in full is improbable and the Bank expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after exhausting all collection efforts such as realisation of collateral, institution of legal proceedings, etc.

Loans and advances with a specific repayment date are classified as overdue when respective principal or interest remains unpaid on due dates.

Loans and advances repayable by regular instalments are classified as overdue when an instalment payment remains unpaid on due dates.

Loans and advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment not been made per instruction; or when outstanding individual loans and advances have remained in excess over the approved credit limit but have not been rectified on time nor been given excess approval by the Bank.

Loans and advances are considered as default when single or multiple events taken place have adversely impaired the estimated future cash flows of the borrower or counterparty. For exposures already past due for more than 90 days or that the borrower is unlikely to repay in full their obligations to the Bank, they will be classified as credit-impaired and classified as Stage 3 accordingly, with lifetime expected credit losses to be recognised.

Evidence that a particular loan or advance is credit-impaired include observable data about the following events:

– Significant financial difficulty faced by the borrower, either caused by macro economic environment or own operating conditions;

– Repayment of principal and/or interest been overdue and net realisable value of security is insufficient to cover the payment of principal and accrued interest;

– Serious deficiencies in loan repayment foreseen, such as default, death, bankruptcy or liquidation of the borrower or guarantor, or if the borrower's whereabouts are unknown;

– Failure to honour repayment per terms and conditions under restructured loans.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk Management (continued)

Gross loans and advances to customers before impairment allowances and loan commitments are analysed by internal credit grade and stage classification as follows:

	2023			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
On-balance sheet exposure				
Pass	1,587,005	–	–	1,587,005
Special mention	–	17,317	–	17,317
Substandard or below	–	–	20,421	20,421
Impairment allowances	(20,524)	(11,472)	(19,041)	(51,037)
Loans and advances to customers	1,566,481	5,845	1,380	1,573,706
Off-balance sheet exposure				
Pass	3,146,788	–	–	3,146,788
Impairment allowances	(4,169)	–	–	(4,169)
Loan commitments	3,142,619	–	–	3,142,619

	2022			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
On-balance sheet exposure				
Pass	1,308,816	–	–	1,308,816
Special mention	–	4,042	–	4,042
Substandard or below	–	–	5,601	5,601
Impairment allowances	(5,645)	(3,487)	(5,333)	(14,465)
Loans and advances to customers	1,303,171	555	268	1,303,994
Off-balance sheet exposure				
Pass	1,911,469	–	–	1,911,469
Impairment allowances	(5,848)	–	–	(5,848)
Loan commitments	1,905,621	–	–	1,905,621

27. LOAN COMMITMENTS

At 31 December, the Bank had the following outstanding commitments:

	2023 HK$'000	2022 HK$'000
Loan commitments which are unconditionally cancellable	3,146,788	1,911,469

28. CAPITAL MANAGEMENT

The Bank considers share capital, other equity instruments and other reserves attributable to equity holders of the Bank as its capital. The Bank's primary objectives when managing its capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, and to secure access to finance at reasonable cost.

The HKMA sets capital requirements for the Bank. In implementing current capital requirements, the HKMA requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted amount. The Bank calculates its capital adequacy ratios in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between maximising return on capital with higher borrowing level, and the advantages of a higher capital level, and adjusts the capital level and structure in light of changes in economic conditions and business opportunities. The Bank engaged in banking activities is regulated by the HKMA. The capital management function is undertaken by the Asset and Liability Committee and is reviewed regularly by the Board of Directors.

29. CAPITAL COMMITMENTS

The Bank has the following outstanding capital commitments not provided for:

	2023 HK$'000	2022 HK$'000
Authorised and contracted for but not provided for	858	34,534

The above capital commitments mainly relate to commitments to purchase computer equipment and software.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2023

30. EVENTS AFTER THE REPORTING DATE

There have been no events after the reporting date that would require disclosure in these financial statements.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2024.

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