



## **ANNUAL REPORT 2021**

# WELAB BANK LIMITED

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### Chinese translation

A Chinese translation of Annual Report is available upon request. The report is also available, in English and Chinese, on the Bank's website at [www.welab.bank](http://www.welab.bank).

## **WELAB BANK LIMITED**

### **DIRECTORS' REPORT**

The directors are pleased to submit their annual report together with the audited financial statements of Welab Bank Limited (the "Bank") for the year ended 31 December 2021.

#### **Principal activities**

The principal activities of the Bank are to provide banking and related financial services. It offers products and services including savings and time deposits, debit card payments, loans and advances and other banking services to customers.

#### **Results and appropriations**

The results of the Bank for the year are set out in the statement of profit or loss and other comprehensive income on page 7.

The directors do not recommend any payment of dividend for the year (2020: Nil).

#### **Donations**

During the year, there is no charitable and other donations made by the Bank (2020: Nil).

#### **Share capital**

Details of shares issued and the related post balance sheet transactions are set out in Notes 23 and 27 to the financial statements, respectively.

#### **Directors**

The directors of the Bank during the year and up to the date of this report were:

##### *Non-executive directors:*

Chan, Ka Keung Ceajer (*Chairman*)

Loong, Pui Chi Simon

Leung, Chun Man Ernest (*appointed on 3 March 2021*)

## WELAB BANK LIMITED

### DIRECTORS' REPORT (Continued)

#### Directors (Continued)

*Executive directors:*

Lee, Ka Tat

Tse, Hok Hoi (*resigned on 6 January 2021*)

*Independent non-executive directors:*

Roberts, Donald Jeffrey

Chang, Suk Ling Irene

Lam, Lee G

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

#### Directors' material interests

Save for the related party transactions as disclosed in Note 26 to the financial statements, no other transactions, arrangements and contracts of significance in relation to the Bank's business to which the Bank, its holding companies or its fellow subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Under a share option scheme arranged by the ultimate holding company, Welab Holdings Limited, certain directors above have been granted options to acquire shares in Welab Holdings Limited for their services to the whole group of Welab Holdings Limited as follows:

Number of share options					
Outstanding balance at 1 January 2021	Held at the time of appointment	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding balance at 31 December 2021
1,245,682	55,000	144,700	(3,925)	(58,500)	1,382,957

Certain share options included above were granted to the relevant director in his capacity of providing services to the Bank with details as disclosed in Notes 10, 24 and 26 to the financial statements.

#### Equity linked agreements

Save for the share option scheme of the ultimate holding company as disclosed above with details set out in Note 24 to the financial statements, no equity-linked agreements were entered into by the Bank or its holding companies during the year or subsisted at the end of the year.

#### Permitted indemnity provisions

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

## **WELAB BANK LIMITED**

### **DIRECTORS' REPORT (Continued)**

#### **Management contracts**

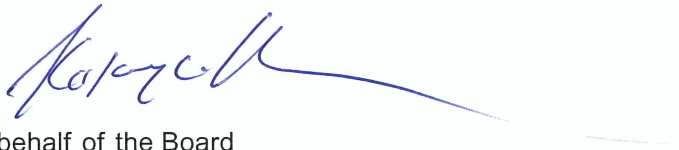
No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

#### **Business review**

No business review is presented for the year as the Bank has been able to claim an exemption under section 388(3) of the Companies Ordinance Cap. 622 since it is a wholly owned subsidiary of Welab Holdings Limited.

#### **Auditor**

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

A handwritten signature in blue ink, appearing to read 'Chan Ka Keung', with a long horizontal flourish extending to the right.

On behalf of the Board  
CHAN Ka Keung Ceajer  
Chairman

Hong Kong, 11 April 2022

## **WELAB BANK LIMITED**

### **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion**

##### *What we have audited*

The financial statements of Welab Bank Limited (the "Bank") which was set out on pages 7 to 49, comprise:

- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of financial position as at 31 December 2021;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

##### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Independence*

We are independent of the Bank in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## **WELAB BANK LIMITED**

### **INDEPENDENT AUDITOR'S REPORT (Continued)**

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

#### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the directors' report and the corporate governance report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of Directors and the Audit Committee for the Financial Statements**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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.

## **WELAB BANK LIMITED**

### **INDEPENDENT AUDITOR'S REPORT (Continued)**

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

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

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 11 April 2022



**WELAB BANK LIMITED****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 HK\$'000	2020 HK\$'000
Interest income	5	6,413	2,884
Interest expense	5	(12,636)	(4,522)
<b>Net interest expense</b>		<b>(6,223)</b>	<b>(1,638)</b>
Net fee and commission income	6	2,630	169
Other income	7	1,102	4,255
<b>Other operating income</b>		<b>3,732</b>	<b>4,424</b>
		<b>(2,491)</b>	<b>2,786</b>
Operating expenses	8	(480,458)	(286,446)
Finance cost on lease liabilities		(3,892)	(4,084)
<b>Loss before allowances for expected credit losses</b>		<b>(486,841)</b>	<b>(287,744)</b>
Change in expected credit losses	9	(7,723)	(136)
<b>Loss for the year</b>		<b>(494,564)</b>	<b>(287,880)</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of financial investments at fair value through other comprehensive income ("FVOCI")			
		(16)	16
<b>Total comprehensive loss for the year</b>		<b>(494,580)</b>	<b>(287,864)</b>

**WELAB BANK LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2021**

	Note	2021 HK\$'000	2020 HK\$'000
<b>Assets</b>			
Balances with banks	12	1,752,038	871,413
Placements with banks	13	209,998	220,984
Financial investments	14	235,311	420,060
Loans and advances to customers	15	497,045	–
Due from a group company	16, 26	18,000	–
Property and equipment	17	17,950	20,965
Right-of-use assets	18	44,660	49,645
Intangible assets	19	63,086	69,502
Other assets	20	79,894	68,089
<b>Total assets</b>		<b>2,917,982</b>	<b>1,720,658</b>
<b>Liabilities</b>			
Deposits from customers	21	2,259,060	1,105,342
Lease liabilities		51,793	52,654
Other liabilities	22	77,571	55,645
Due to group companies	16, 26	18,166	12,200
<b>Total liabilities</b>		<b>2,406,590</b>	<b>1,225,841</b>
<b>Equity</b>			
Share capital	23	1,371,000	870,000
Reserves		(859,608)	(375,183)
<b>Total equity</b>		<b>511,392</b>	<b>494,817</b>
<b>Total equity and liabilities</b>		<b>2,917,982</b>	<b>1,720,658</b>

.....  
**Chan, Ka Keung Ceajer**  
Chairman

.....  
**Lee Ka Tat**  
Director

**WELAB BANK LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Share Capital HK\$'000	Employee share-based payment reserve HK\$'000	Financial assets at FVOCI reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>At 1 January 2020</b>	600,000	2,816	–	(95,082)	507,734
Issuance of shares (Note 23)	270,000	–	–	–	270,000
Loss for the year	–	–	–	(287,880)	(287,880)
Recognition of equity-settled share-based payment (Note 24)	–	4,947	–	–	4,947
Other comprehensive income for the year	–	–	16	–	16
<b>At 31 December 2020</b>	<u>870,000</u>	<u>7,763</u>	<u>16</u>	<u>(382,962)</u>	<u>494,817</u>
<b>At 1 January 2021</b>	870,000	7,763	16	(382,962)	494,817
Issuance of shares (Note 23)	501,000	–	–	–	501,000
Loss for the year	–	–	–	(494,564)	(494,564)
Recognition of equity-settled share-based payment (Note 24)	–	10,155	–	–	10,155
Forfeiture/lapse of share options	–	(7,899)	–	7,899	–
Other comprehensive loss for the year	–	–	(16)	–	(16)
<b>At 31 December 2021</b>	<u>1,371,000</u>	<u>10,019</u>	<u>–</u>	<u>(869,627)</u>	<u>511,392</u>

**WELAB BANK LIMITED****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021 HK\$'000	2020 HK\$'000
<b>Cash flows from operating activities</b>		
Loss for the year	<u>(494,564)</u>	<u>(287,880)</u>
<b>Adjustments:</b>		
Interest income	(6,413)	(2,884)
Interest expense	12,636	4,522
Depreciation on property and equipment	7,417	5,458
Expected credit losses	7,723	136
Depreciation of right-of-use assets	14,573	11,902
Amortization of intangible assets	7,265	11,757
Write-off of intangible assets	1,060	–
Finance cost on lease liabilities	3,892	4,084
Non-cash share-based expenses	10,155	4,947
Interest received	3,422	2,650
Interest paid	(10,857)	(3,284)
<b>Changes in operating assets and liabilities</b>		
Increase in loans and advances to customers	(504,684)	–
Decrease in other assets	372	15,223
Increase in deposits from customers	1,153,718	1,105,342
(Increase)/decrease in due from a group company	(18,000)	1,704
Increase in other liabilities	18,688	30,880
Increase in due to group companies	5,966	11,396
<b>Net cash generated from operating activities</b>	<u>212,369</u>	<u>915,953</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(4,402)	(24,216)
Purchase of intangible assets	(11,095)	(68,279)
Purchase of financial investments at FVOCI	–	(70,183)
Proceeds from maturity of financial investments at FVOCI	70,093	–
Purchase of financial investments at amortized cost	(235,343)	–
Placements with banks with original maturity beyond three months	(60,000)	–
<b>Net cash used in investing activities</b>	<u>(240,747)</u>	<u>(162,678)</u>
<b>Cash flows from financing activities</b>		
Principal element of lease payment	(8,990)	(6,607)
Interest element of lease payment	(3,892)	(4,084)
Proceeds from issuance of ordinary shares	501,000	270,000
Decrease in due to group companies	–	(2,499)
<b>Net cash generated from financing activities</b>	<u>488,118</u>	<u>256,810</u>

**WELAB BANK LIMITED****STATEMENT OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021 HK\$'000	2020 HK\$'000
<b>Net change in cash and cash equivalents</b>	<b>459,740</b>	1,010,085
Cash and cash equivalent at the beginning of the year	<u>1,442,553</u>	<u>432,468</u>
<b>Cash and cash equivalent at the end of the year</b>	<u><b>1,902,293</b></u>	<u>1,442,553</u>
<b>Analysis of balances of cash and cash equivalents</b>		
Balances with banks	<b>1,752,293</b>	871,571
Placements with banks with original maturity within three months	<b>150,000</b>	221,000
Financial Investments with original maturity within three months	<u>–</u>	<u>349,982</u>
	<u><b>1,902,293</b></u>	<u>1,442,553</u>

# WELAB BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 General information

Welab Bank Limited (the “Bank”) is a limited liability company incorporated in Hong Kong. The principal activities of the Bank are to provide banking and related financial services. It offers products and services including savings and time deposits, debit card payments, loans and advances and other banking services to customers.

The Bank’s registered office is 23rd floor, K11 Atelier King’s Road, 728 King’s Road, Quarry Bay, Hong Kong.

The immediate holding company of the Bank is Welab Capital Limited, which is incorporated in Hong Kong. The intermediate holding company of the Bank is Welab Venture Business Limited, which is incorporated in Cayman Islands. The ultimate holding company of the Bank is Welab Holdings Limited, which is incorporated in British Virgin Islands.

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### (a) Basis of preparation

- (i) *Compliance with Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Companies Ordinance (“HKCO”)*

The financial statements of the Bank have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants and requirements of the HKCO Cap. 622.

The financial statements are presented in Hong Kong dollars and rounded to nearest thousand, unless otherwise stated.

- (ii) *Historical cost convention*

The financial statements have been prepared on a historical cost convention, except for financial assets at FVOCI which have been measured at fair value.

The preparation of financial statements of the Bank in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements of the Bank are disclosed in Note 4.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (a) Basis of preparation (Continued)

###### *(iii) New and amended standards adopted by the Bank*

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2: amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4, and HKFRS 16

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

###### *(iv) New standards and interpretation not yet adopted*

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

##### (b) Income/expense recognition

###### *(i) Interest income and interest expenses*

Interest income and expense for all financial instruments are recognized in “Interest income” and “Interest expense” respectively in the profit or loss using the effective interest method.

###### *(ii) Fee and commission income*

Fee and commission income is recognized when the Bank has satisfied its performance obligation in providing the promised products and services to the customers, and are recognized based on contractual rates agreed with customers net of expenses directly related to it.

###### *(iii) Other income*

Other income includes grants from the government which are recognised at their fair value when there is a reasonable assurance that the Bank is entitled to it and could fulfill the conditions.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (c) Employee benefits

###### (i) *Short term employee benefits*

Salaries, annual bonuses, and the cost of non-monetary benefits are accrued in the year in which the associated service is rendered by employees.

###### (ii) *Pension obligations*

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognized as an expense as it is incurred in the profit or loss.

###### (iii) *Annual leave*

Employee entitlement to annual leave is recognized when they are accrued to employees. A provision is made for the estimated liability for unused annual leave as a result of services rendered by employees up to the end of the reporting period.

##### (d) Share-based payments

Share-based compensation benefits are provided to employees via an option plan operated by the Bank's ultimate holding company, Welab Holdings Limited. Information relating to the plan is set out in Note 24. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense with a corresponding increase in equity.

The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.



## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (d) Share-based payments (Continued)

At the end of each reporting period, the Bank revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

When the options are exercised, Welab Holdings Limited issues new ordinary shares to employees.

##### (e) Current and deferred tax

###### *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Bank measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

###### *Deferred income tax*

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 at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (f) Financial assets

###### *Classification and measurement*

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

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

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

For assets measured at fair value, gains and losses will either be recorded in the profit or loss or other comprehensive income.

###### *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

###### *Measurement*

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

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (f) Financial assets (Continued)

###### Debt instruments

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

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

##### (g) Financial liabilities

All financial liabilities are initially measured at fair value, net of transaction costs incurred. The subsequent measurement of financial liabilities depends on their classification.

###### (i) *Financial liabilities*

Financial liabilities are subsequently stated at amortized cost. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss using the effective interest method.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (g) Financial liabilities (Continued)

###### (ii) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Bank currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Arrangements do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

###### (iii) *Derecognition*

A financial liability is derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

##### (h) Impairment

The Bank applied the impairment requirements under HKFRS 9.

All financial assets, except for financial assets classified or designated as FVPL, are subject to impairment and recognition of expected credit losses ("ECL").

Under HKFRS 9, ECL will be assessed using an approach which classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile. A financial asset is classified under:

- **Stage 1**, if it was not credit-impaired upon origination, and there has not been a significant increase in its credit risk. Stage 1 ECLs are measured as the credit loss that is expected to result from a default occurring within the next 12 months;
- **Stage 2**, if it was not credit-impaired upon origination but has since experienced a significant increase in credit risk. Stage 2 ECLs are measured as the lifetime expected credit loss from a default from the expected remaining life of the financial instrument;
- **Stage 3**, if it has been credit-impaired with objective evidence of default. Stage 3 ECLs are also measured as lifetime expected credit loss from the expected remaining life of the financial instrument.

The impairment requirements of HKFRS 9 are subject to management judgements, estimates and assumptions.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (i) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their costs or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements: the shorter of the lease term of the leased properties or 5 years
- Office and computer equipment: 3 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

##### (j) Leases

###### *The Bank as a lessee*

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

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- amounts expected to be payable by the Bank under residual value guarantees
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option

## **WELAB BANK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

#### **2 Summary of significant accounting policies (Continued)**

##### **(j) Leases (Continued)**

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the incremental borrowing rate is used, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

If a readily observable amortizing loan rate is available (through recent financing or market data) which has a similar payment profile to the lease, then the Bank uses that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (k) Intangible assets

Intangible assets that have an indefinite estimated useful life or are not yet ready for use are tested for impairment annually. Intangible assets that have a finite estimated useful life, are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is the lower of legal duration and expected economic life. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

##### (i) Software

Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognized as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use or sale;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use; or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and relevant overheads costs.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (k) Intangible assets (Continued)

###### *(ii) Research and development*

Research expenditure and development expenditure that do not meet the criteria in (i) above are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

###### *(iii) Amortization methods and periods*

Intangible assets with finite useful life, are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is measured as the shorter of the period of the contractual or other legal rights and expected economic life. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

##### (l) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash, balances with banks, placements with banks and investment securities with original maturities of three months or less that are convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

##### (m) Other assets

Other assets represent rental and other deposits, prepayments and other receivables.

Other assets are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Bank holds the other assets at with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. The loss arising from impairment is recognized in the profit or loss. See Note 2(h) for a description of the Bank's impairment policy.

##### (n) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Summary of significant accounting policies (Continued)

##### (n) Provisions (Continued)

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

##### (o) Share capital

Ordinary share is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

##### (p) Functional currency and foreign currency translation

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

Items included in the financial statements are measured using the primary economic environment in which the entity operates (the "functional currency"). The Bank's financial statements are presented in thousands of units of Hong Kong dollars ("HK\$"), which is the Bank's functional currency and presentation currency.

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

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

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

## **WELAB BANK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

#### **2 Summary of significant accounting policies (Continued)**

##### **(q) Related parties**

For the purpose of these financial statements, related parties of the Bank are defined as below:

- (i) A person, or a close member of that person's family, is related to the Bank if that person:
  - (a) has control or joint control over the Bank;
  - (b) has significant influence over the Bank; or
  - (c) is a member of the key management personnel of the Bank or the Bank's parent entities.
- (ii) An entity is related to the Bank if any of the following conditions applies:
  - (a) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (c) Both entities are joint venture of the same third party.
  - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
  - (f) The entity is controlled or jointly controlled by a person identified in (i).
  - (g) A person identified in (i)(a) 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).
  - (h) 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 Bank's parent.

## **WELAB BANK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

#### **3 Financial risk management**

The Board has the ultimate responsibility for the effective management of risk and approves and oversees the Bank's overall risk management framework. The Board delegates its power to supervise the Bank's major functional areas, including product risk management, compliance, treasury and financial control, and the risks associated with them to the Risk Committee, the Audit Committee, and the Executive Committee based on the respective terms of reference. The Risk Committee in particular has the authority and responsibility to oversee and guide the overall management of the collective set of different risks undertaken by the Bank. The Chief Executive, Chief Risk Officer and the senior management have the responsibility to ensure various risk limits are appropriately established according to the risk management strategies set by the Board, and to oversee the effectiveness of managing and controlling risk in the day-to-day management of the Bank. At management level, Risk Management Committee ("RMC") and Asset and Liability Committee ("ALCO") oversee the risk management of the various risk types.

Business units act as the first line of defence in risk management while other functional units, in particular, Risk, Compliance & Finance departments, which are independent from the business units, and act as the second line of defence, assist in managing different kinds of risks. Internal Audit Department acts as the third line of defence is responsible for providing independent assurance through conducting internal audits, and reporting to the Audit Committee on the quality of risk controls and management, the adequacy and the compliance of internal policies and procedures.

##### **(a) Financial risk factors**

The Bank is exposed to various kinds of financial risks including market risk, credit risk and liquidity risk. The Bank's risk management objectives and policies seek to minimize the potential adverse effects on its financial performance.

##### **Market risk**

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Bank enters into various types of financial instruments, mainly foreign exchange and debt securities, that comprise transactions initiated for the Bank's own account and customer needs. The Bank's positions are managed under the limits and guidelines laid down in the market risk management policy and the policy on allocating transaction of financial instruments to the trading or non-trading as applicable. The Risk Management Department is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

For market risk measurement techniques, the measuring procedures and limit system used for market risk management have been approved by the Risk Committee. Limits on notional and sensitivity are set for treasury positions which are marked-to-market daily. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are subject to the review by management, ALCO, the Risk Committee and the Board of Directors.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk factors (Continued)

###### Market risk (Continued)

###### *Foreign exchange risk*

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Bank's position as a result of a change in foreign currency exchange rates. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's foreign exchange risk arises primarily from currency exposures originated by the pledged deposit held by the Bank. The foreign exchange risk is monitored by the Risk Management Department, management and ALCO within position limits set in the foreign exchange risk management policy approved by the Risk Committee. The Board sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored on a daily basis.

The Bank mainly operates with most of the transactions settled in HK\$ and United States dollars ("US\$"). In respect of transactions settled in US\$, the Bank did not have significant exposure to foreign exchange risk during the year as HK\$ is pegged against US\$.

Details of the Bank's cash and cash equivalents is disclosed in the statement of cash flows.

###### *Interest rate risk*

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movement arises. The Bank's interest rate risk exposure is mainly contributed by non-trading portfolio.

The Bank manages interest rate risks within the limits approved by the Board and Risk Committee and under the monitoring of ALCO. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. For a prudent practice, additional limits on interest rate sensitivities (also known as PV01) are being enforced on daily basis.

The Bank maintains structural interest rate positions on its non-trading portfolio. Interest rate risk arises primarily from the timing differences in the repricing of and the different bases of pricing interest-bearing assets, liabilities and off-balance-sheet positions. Interest rate risk is regularly monitored by regular sensitivity analysis of the net repricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk factors (Continued)

###### Market risk (Continued)

###### *Interest rate risk (Continued)*

The Bank measures interest rate risks on a regular basis according to corresponding policies. The key assumptions the Bank uses in the measurements of the risk include:

- (i) for fixed rate items, the earliest interest repricing date is the maturity dates of the assets or liabilities concerned;
- (ii) for variable rate items, the earliest interest repricing date is the next repricing date of the assets or liabilities concerned;
- (iii) for managed rate items, the earliest interest repricing date is the next business day;
- (iv) a parallel shift in interest rate throughout the time spectrum; and
- (v) for deposits without a fixed maturity, the earliest interest repricing date is the next business day.

###### *Sensitivity analysis*

It is estimated that a general increase/decrease of 200 basis points in interest rates, with all other variables held constant, would increase/decrease the Bank's loss and total comprehensive loss for the year ended 31 December 2021 by less than HK\$1,000,000.

The 200 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until next annual balance sheet date.

###### Credit risk

###### *(i) Credit risk management*

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to each counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk factors (Continued)

###### Credit risk (Continued)

###### (i) Credit risk management (Continued)

The exposure to any one counterparty including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of counterparties to meet the obligations. The Bank has in place effective monitoring and control systems to identify, monitor and address problem credits in an accurate and timely manner.

The Bank's credit risk mainly arises from loans and advances to customers, cash and cash equivalents and other receivables.

###### (ii) Expected credit loss measurement

The Bank adopts a "three-stage" model in accordance with HKFRS 9 for impairment based on changes in credit quality since initial recognition (see Note 2(h)). ECL of financial instruments are measured by taking into consideration forward-looking information. Purchased or originated credit impaired financial assets are those financial assets that are credit-impaired at initial recognition. Their ECL are always measured on lifetime basis (Stage 3).

The Bank adopts the approach that utilises the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") to estimate ECL of financial instruments. Simplified alternatives are applied to portfolios that have difficulties in adopting this approach. Significant credit deterioration criteria have to be defined for assessing significant increases in credit risk, primarily based on the key requirements summarized below:

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations.
- An actual or expected significant change in the operating results of the corporate obligor.
- Significant increases in credit risk on other financial instruments of the same borrower.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk factors (Continued)

###### Credit risk (Continued)

###### (ii) *Expected credit loss management (Continued)*

- Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments.
- Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group.
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.

###### Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. A credit exposure is considered as experiencing significant increase in credit risk if there is significant downgrade in external credit rating or overdue of interest/principal payments. ECL is calculated as the discounted product of the PD, EAD and LGD, defined as follows:

- PD represents the likelihood of a counterparty defaulting on its financial obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

There have been no significant changes in estimation technique or significant assumptions made during the reporting period.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk factors (Continued)

###### Credit risk (Continued)

###### (ii) *Expected credit loss measurement (Continued)*

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information by considering key economic variables identified by the Bank that have impact on credit risk and ECL for the Bank's portfolios.

These economic variables and their associated impact on the PD, EAD and LGD vary by the type of financial instruments. Expert judgement has also been applied in this process.

In addition to the base economic scenario, the Bank considers two other plausible scenarios along with the assigned weightings as probability of occurrence under the current economic environment. The scenarios and their corresponding weightings are determined by a combination of model-based analysis and expert judgement, taking into account the range of possible outcomes each chosen scenario is representative of. The probability weighted ECL is determined by applying each scenario on the financial instruments through running the relevant ECL models and multiplying the resulted ECLs by the appropriate scenario weighting.

###### *Expected credit loss allowance*

The ECL allowance was recognized in the period after considering a variety of factors, as described below:

- Transfers between Stage 1, Stage 2 and Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.



## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk factors (Continued)

###### Credit risk (Continued)

###### *Expected credit loss allowance (Continued)*

The ECL allowances movement for the year are set out as follows:

	Balances and Placements with Banks HK\$'000	Financial assets at FVOCI HK\$'000	Financial assets at amortized cost HK\$'000	Loans and advances to customers HK\$'000	Total HK\$'000
At 1 January 2021	174	22	9	–	205
Increase in the allowance recognized in profit or loss during the year (Note 9)	83	(22)	23	7,639	7,723
Write-offs	–	–	–	(98)	(98)
<b>At 31 December 2021</b>	<b>257</b>	<b>–</b>	<b>32</b>	<b>7,541</b>	<b>7,830</b>

There were no collaterals and other credit enhancements for financial assets at 31 December 2021 (2020: Nil).

###### Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Bank's liquidity risk is monitored by different risk metrics, including liquidity maintenance ratio ("LMR"), liquidity cushion and maturity mismatch profile to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Bank to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

The Bank's risk appetite is the risk level that the Bank is prepared to accept to achieve its strategic and business objectives. ALCO has been delegated by the Board to manage the Bank's liquidity risk strategy, procedures and practices. ALCO membership consists of the Chief Executive, Alternate Chief Executives, Chief Risk Officer and senior management members. The risk appetite and related limits are reviewed and approved by the Board and Risk Committee at least annually in order to align with industry standards, market developments and business conditions of the Bank.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (a) Financial risk factors (Continued)

###### Liquidity risk (Continued)

An acceptable risk appetite is adopted in managing and controlling risks in a prudent manner to balance the risk and return that the Bank is prepared to take. Various ratios and risk limits are set with reference to the legal and regulatory requirements to limit and control the risk exposure under an acceptable risk appetite level and commensurate with prudent liquidity risk management practices.

The Bank's liquidity risk is monitored by the Risk Management Department, management and ALCO in accordance with the guidelines and procedures laid down in the liquidity risk management policy that has been reviewed and approved by the Board and ALCO periodically.

The following table shows details of the Bank's remaining contractual maturity for its non-derivative financial liabilities. It is based on the contractual maturities of the undiscounted financial liabilities including future interest to be accrued.

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Total HK\$'000
<b>At 31 December 2021</b>						
Deposits from customers	336,863	1,533,717	378,678	9,802	–	2,259,060
Lease liabilities	–	365	3,107	14,277	39,897	57,646
Other liabilities	–	59,735	326	17,510	–	77,571
Due to group companies	18,166	–	–	–	–	18,166
<b>Total financial liabilities</b>	<b>355,029</b>	<b>1,593,817</b>	<b>382,111</b>	<b>41,589</b>	<b>39,897</b>	<b>2,412,443</b>
<b>At 31 December 2020</b>						
Deposits from customers	106,300	125,552	873,490	–	–	1,105,342
Lease liabilities	–	–	1,396	10,441	49,808	61,645
Other liabilities	–	9,006	24,937	18,128	3,574	55,645
Due to a group company	12,200	–	–	–	–	12,200
<b>Total financial liabilities</b>	<b>118,500</b>	<b>134,558</b>	<b>899,823</b>	<b>28,569</b>	<b>53,382</b>	<b>1,234,832</b>

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (b) Operational risk

Operational risk is inherent in all business activities, arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. The management oversight of this risk is important to achieve the Bank's objectives. The Bank's operational risk management is embedded in our culture and decision-making processes through a systematic approach, where risk exposures are managed through a standard approach:

- (i) Identification and assessment
- (ii) Root cause analysis, mitigation tracking and on-going monitoring
- (iii) Monitoring against risk limits set in risk appetite
- (iv) Escalation to appropriate governance forums such as management level RMC and board level Risk Committee

Concurrently, operational risk is managed through formal policies and procedures, business practices, and compliance monitoring. An operational risk management function is responsible for maintaining these policies, procedures, practices and monitoring the Bank's compliance with them.

Business continuity and disaster recovery planning is also critical to effective management of operational risks. Each business unit is required to develop, maintain and test these plans at least annually to ensure that recovery activities can support mission critical functions, including technology, networks and datacenters while supporting customer applications and business operations.

##### (c) Fair value estimation

###### (i) Valuation process

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices, an assessment is made against external market data. Financial instruments held at fair value in the statement of financial position have been classified into a valuation hierarchy that reflects the significance of the inputs used in the fair value measurements.

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively.

The fair values of other financial assets and liabilities are determined in accordance with generally accepted pricing models such as discounted cash flow analysis using observable and/or unobservable inputs.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Financial risk management (Continued)

##### (c) Fair value estimation (Continued)

###### (i) Valuation process (Continued)

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models such as discounted cash flow analysis using the observable and/or unobservable inputs.

###### (ii) Valuation of financial instruments carried at fair value

There was no financial instrument held at fair value at 31 December 2021.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above at 31 December 2020:

	2020			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial investments at FVOCI				
– Bank debt securities	120,101	–	–	120,101
	<u>120,101</u>	<u>–</u>	<u>–</u>	<u>120,101</u>

There were no transfers among level 1, level 2 and level 3 instruments during 2020.

Based on the estimation of the management, the carrying value of the financial assets and liabilities measured at amortized cost are approximate to their fair values.

## **WELAB BANK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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

##### **(d) Capital management**

The Bank's capital management policies are to diversify its sources of capital, to allocate capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses and to meet the expectations of key constituencies, including investors and regulators.

The Banking Ordinance and the Banking (Capital) Rules set out the current requirements relating to the minimum capital adequacy ratios and leverage ratio for an authorized institution incorporated in Hong Kong and the methodology for calculating these ratios.

The Bank complied with the capital requirements imposed by the Hong Kong Monetary Authority throughout 2021 and 2020.

#### **4 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

##### **(a) Intangible assets**

Costs incurred in developing the new platforms and systems are capitalized as intangible assets when recognition criteria as detailed in Note 2(k) are fulfilled. Management has exercised judgement in determining whether these costs fulfilled the recognition criteria and whether the platforms and systems could generate probable future economic benefits to the Bank. Any severe change in market performance or technology advancement will have an impact on the development costs capitalized.

The Bank estimates the useful life of the intangible assets to be three to ten years based on the expected technical obsolescence of such assets. The intangible assets were amortized over the useful life from the date available for use intended by the management.

##### **(b) Share-based payment**

Welab Holdings Limited, the ultimate holding company of the Bank, granted share options to the employees of the Bank as a common feature of employee remuneration. HKFRS 2 requires recognition of an expense for those share options at the fair value on the grant date (equity-settled plans). For share options granted to employees, in many cases market prices are not available because the options granted are subject to terms and conditions that do not apply to traded options. If this is the case, the Bank estimates the fair value of the equity instruments granted using a valuation technique, which is consistent with generally accepted valuation methodologies.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 4 Critical accounting estimates and judgements (Continued)

##### (c) ECL allowances

The ECL 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 condition as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3(a).

##### (d) Current and deferred income tax

The Bank is subject to income taxes in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the estimated amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made.

As at 31 December 2021, no deferred tax asset has been recognized on the estimated unused tax losses of approximately HK\$935,343,000 (2020: HK\$459,997,000) due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, recognition of deferred tax assets may arise.

#### 5 Interest income and expense

	2021 HK\$'000	2020 HK\$'000
<b>Interest income from:</b>		
Loans and advances to customers	4,120	–
Balances and placements with banks	340	234
Financial investments at amortized cost	666	2,557
Financial investments at FVOCI	225	15
Others	1,062	78
	<u>6,413</u>	<u>2,884</u>
<b>Interest expense on:</b>		
Deposit from customers	(12,636)	(4,522)
<b>Net interest expense</b>	<u>(6,223)</u>	<u>(1,638)</u>

**WELAB BANK LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****6 Net fee and commission income**

	2021 HK\$'000	2020 HK\$'000
Fee and commission income	8,885	1,480
Less: Fee and commission expense	(6,255)	(1,311)
Net fee and commission income	<u>2,630</u>	<u>169</u>

**7 Other income**

	2021 HK\$'000	2020 HK\$'000
Government grant	807	4,536
Others	295	(281)
	<u>1,102</u>	<u>4,255</u>

**8 Operating expenses**

	2021 HK\$'000	2020 HK\$'000
Employee benefits		
– Salaries and other short-term employee benefits	171,927	117,915
– Pension	3,875	2,513
– Share-based compensation	10,155	4,947
Premises and equipment expenses excluding depreciation		
– Rental of other premises	240	1,470
– Others	2,887	2,686
Depreciation of property and equipment (Note 17)	7,417	5,458
Depreciation of right-of-use assets (Note 18)	14,573	11,902
Amortization of intangible assets (Note 19)	7,265	11,757
Write-off of intangible assets (Note 19)	1,060	–
Auditor's remuneration		
– Statutory audit	1,769	1,510
– Other services	2,983	2,652
Software licensing and IT costs	123,836	68,188
Legal and professional fees	5,963	2,290
Other operating expenses	126,508	53,158
	<u>480,458</u>	<u>286,446</u>

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 9 Change in expected credit losses

	2021 HK\$'000	2020 HK\$'000
Loans and advances to customers	7,639	–
Balances with banks	97	97
Placements with banks	(14)	16
Financial assets at FVOCI	(22)	22
Financial assets at amortized cost	23	1
	<u>7,723</u>	<u>136</u>

#### 10 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2021 HK\$'000	2020 HK\$'000
Directors' fees	3,000	3,000
Salaries, bonus, allowances and benefits in kind (Note)	4,265	7,892
Pension	20	36
	<u>7,285</u>	<u>10,928</u>

During the year, no termination benefits were paid by the Bank to any of the Bank's directors. During the year, the Bank did not incur any payment to third parties for making available directors' services.

There are no loans, quasi-loans and other dealing arrangements in favor of directors, controlled bodies corporate by and connected entities with such directors for the year.

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

Note: Certain share options were granted to the relevant director in his capacity of providing services to the Bank with details disclosed in Note 24 to the financial statements.



## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 11 Income tax

The applicable Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax has been made in the financial statements for the year ended 31 December 2021 (2020: Nil) as the Bank had no estimated assessable profit for the year.

The taxation on the Bank's loss before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2021 HK\$'000	2020 HK\$'000
Loss before income tax	<u>(494,564)</u>	<u>(287,880)</u>
Tax calculated at tax rate of 16.5%	(81,603)	(47,500)
Tax effect of income not subject to tax	(154)	(1,170)
Tax effect of non-deductible expenses	1,845	3,835
Temporary difference not recognized	1,480	(13,290)
Tax effect of tax losses not recognized	<u>78,432</u>	<u>58,125</u>
Income tax expense	<u>–</u>	<u>–</u>

At 31 December 2021, the Bank had estimated unused tax losses of approximately HK\$935,343,000 (2020: HK\$459,997,000) available for offset against future profits, subject to the approval of tax authority. No deferred tax assets have been recognized in respect of such losses due to unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

#### 12 Balances with banks

	2021 HK\$'000	2020 HK\$'000
Balances with central bank – Stage 1	1,629,519	776,801
Balances with banks – Stage 1	122,774	94,770
Less: ECL allowances – Stage 1	<u>(255)</u>	<u>(158)</u>
	<u>1,752,038</u>	<u>871,413</u>

**WELAB BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13 Placements with banks**

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Placements with banks – Stage 1	<b>210,000</b>	221,000
Less: ECL allowances – Stage 1	<b>(2)</b>	(16)
	<b>209,998</b>	220,984

**14 Financial investments**

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
<b>At FVOCI</b>		
Bank debt securities – Stage 1	–	120,101
Less: ECL allowances – Stage 1	–	(22)
	–	120,079
<b>At amortised cost</b>		
Government bonds – Stage 1	<b>153,763</b>	–
Exchange fund bills – Stage 1	<b>71,472</b>	299,990
Bank and corporate debt securities – Stage 1	<b>10,108</b>	–
Less: ECL allowances – Stage 1	<b>(32)</b>	(9)
	<b>235,311</b>	299,981

**15 Loans and advances to customers**

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Gross loans and advances to customers	<b>504,586</b>	–
Less: ECL allowances	<b>(7,541)</b>	–
	<b>497,045</b>	–

**WELAB BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**15 Loans and advances to customers (Continued)**

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

	2021			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Gross loans and advances to customers</b>				
Pass	504,568	–	–	504,568
Special mention	–	18	–	18
	<u>504,568</u>	<u>18</u>	<u>–</u>	<u>504,586</u>

Reconciliation of ECL allowances and gross loans and advances to customers is as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ECL allowances</b>				
At 1 January 2021	–	–	–	–
Change for the year (Note 9)	7,529	12	98	7,639
Write-offs	–	–	(98)	(98)
At 31 December 2021	<u>7,529</u>	<u>12</u>	<u>–</u>	<u>7,541</u>

	2021			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Gross loans and advances to customers</b>				
At 1 January 2021	–	–	–	–
Net change in exposures	504,568	18	98	504,684
Write-offs	–	–	(98)	(98)
At 31 December 2021	<u>504,568</u>	<u>18</u>	<u>–</u>	<u>504,586</u>

There are no transfers between stages in 2021.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 16 Amounts due from/to group companies

The amount due from a group company is unsecured, at arm's length based on the market interest rate, repaid within the next 12 months, and denominated or settled in HK\$.

The amounts due to group companies are unsecured, interest free and denominated or settled in HK\$. They have no fixed repayment terms but are expected to be repaid within the next 12 months.

#### 17 Property and equipment

	Leasehold improvement HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1 January 2021	11,153	15,515	26,668
Additions	1,763	2,639	4,402
At 31 December 2021	<u>12,916</u>	<u>18,154</u>	<u>31,070</u>
<b>Accumulated depreciation</b>			
At 1 January 2021	1,789	3,914	5,703
Charge for the year	2,706	4,711	7,417
At 31 December 2021	<u>4,495</u>	<u>8,625</u>	<u>13,120</u>
<b>Net book value</b>			
At 31 December 2021	<u>8,421</u>	<u>9,529</u>	<u>17,950</u>
<b>Cost</b>			
At 1 January 2020	–	2,452	2,452
Additions	11,153	13,063	24,216
At 31 December 2020	<u>11,153</u>	<u>15,515</u>	<u>26,668</u>
<b>Accumulated depreciation</b>			
At 1 January 2020	–	245	245
Charge for the year	1,789	3,669	5,458
At 31 December 2020	<u>1,789</u>	<u>3,914</u>	<u>5,703</u>
<b>Net book value</b>			
At 31 December 2020	<u>9,364</u>	<u>11,601</u>	<u>20,965</u>

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 18 Right-of-use assets

The Bank has lease contracts for office premises with lease terms up to 5 years. Lease payments are agreed upfront except for renewal periods whereby the lease payments are subject to prevailing market rates. Extension options are currently not included in the lease term.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year.

	2021 HK\$'000	2020 HK\$'000
At 1 January	49,645	54,833
Additions	9,588	6,714
Depreciation	(14,573)	(11,902)
At 31 December	<u>44,660</u>	<u>49,645</u>

#### 19 Intangible assets

The Bank recognizes intangible assets which include separately acquired software and IT systems developed with external third parties and a fellow subsidiary.

	2021 HK\$'000	2020 HK\$'000
<b>Cost</b>		
At 1 January	81,259	12,980
Additions	11,095	68,279
Write-off	(1,200)	–
Reclassification	(9,186)	–
At 31 December	<u>81,968</u>	<u>81,259</u>
<b>Accumulated amortization</b>		
At 1 January	11,757	–
Charge for the year		
– Amortization	13,836	11,757
– Reclassification	(6,571)	–
Write-off	(140)	–
At 31 December	<u>18,882</u>	<u>11,757</u>
<b>Net book value</b>		
At 31 December	<u>63,086</u>	<u>69,502</u>

**WELAB BANK LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****20 Other assets**

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Prepayments	<b>50,055</b>	42,238
Rental and other deposits	<b>26,414</b>	25,417
Other receivables	<b>3,425</b>	434
	<u><b>79,894</b></u>	<u>68,089</u>

**21 Deposits from customers**

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Savings accounts	<b>336,863</b>	106,300
Time deposits	<b>1,922,197</b>	999,042
	<u><b>2,259,060</b></u>	<u>1,105,342</u>

**22 Other liabilities**

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Accruals	<b>63,320</b>	52,660
Interest payables	<b>3,017</b>	1,238
Other payables	<b>11,234</b>	1,747
	<u><b>77,571</b></u>	<u>55,645</u>

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 23 Share capital

	2021		2020	
	Number of shares	Share capital HK\$'000	Number of shares	Share capital HK\$'000
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January	870,000,001	870,000	600,000,001	600,000
Issuance of share	501,000,000	501,000	270,000,000	270,000
<b>At 31 December</b>	<b>1,371,000,001</b>	<b>1,371,000</b>	<b>870,000,001</b>	<b>870,000</b>

Note: During the year, a total of 501,000,000 ordinary shares have been issued for a total consideration of HK\$501,000,000.

#### 24 Share-based payments

Welab Holdings Limited, the ultimate holding company of the Bank, granted its share options to the relevant director and employees of the Bank. Options are generally vested to over a four years' service period (the vesting period) upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement. The share options are exercisable starting from 23 April 2014.

For the year ended 31 December 2021, the Bank recorded and recognized share-based compensation expenses of HK\$10,155,000 during the year (2020: HK\$4,947,000).

Movements in the number of share options granted to the director and employees of the Bank in respect of the services provided to the Bank and their related weighted average exercise prices are as follows:

	2021		2020	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
Outstanding at 1 January	12.8	253,900	13.0	127,000
Granted during the year	12.4	394,000	12.4	152,200
Exercised during the year	12.0	(5,167)	–	–
Forfeited during the year	12.0	(149,946)	11.3	(25,300)
Outstanding at 31 December	12.7	492,787	12.8	253,900
Exercisable at 31 December	13.6	73,365	13.3	42,938

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 24 Share-based payments (Continued)

During the year ended 31 December 2021, 149,946 share options were forfeited as certain employees and non-employees ceased to render services to the Bank (2020: 25,300).

The above options outstanding at 31 December 2021 had a weighted average exercise price of US\$12.7 (2020: US\$12.8), and a weighted average remaining contractual life of 9.0 years (2020: 9.0 years).

The above share options outstanding at 31 December 2021 and 2020 have the following expiry dates and exercise prices:

<i>Expiry date</i>	2021		2020	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
2nd quarter 2029	15.1	47,000	15.0	49,000
3rd quarter 2029	12.0	16,125	12.0	72,000
1st quarter 2030	12.0	33,000	12.0	35,000
2nd quarter 2030	13.7	36,527	13.1	59,400
3rd quarter 2030	12.0	3,135	12.0	3,500
4th quarter 2030	12.0	2,000	12.0	35,000
1st quarter 2031	12.0	23,500	–	–
2nd quarter 2031	12.5	303,000	–	–
3rd quarter 2031	12.0	28,500	–	–
		<b>492,787</b>		<b>253,900</b>
		<b>492,787</b>		<b>253,900</b>

The above options and related details do not include those options granted to the directors and employees of the Bank in their capacity of rendering services to the ultimate holding company.

#### *Fair value of options and assumptions*

At 31 December 2021, the weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was US\$17.7 per option (2020: US\$18.7).



## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 24 Share-based payments (Continued)

The significant inputs into the model for the year ended 31 December 2021 and 2020 were as follows:

	2021	2020
Weighted average share price at grant dates	<b>US\$27.2</b>	US\$27.2
Expected volatility	<b>50.0%</b>	55.0%
Expected dividend yield	<b>0%</b>	0%
Risk-free interest rate	<b>0.3-0.8%</b>	0.4%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of monthly share prices of the comparable companies over the expected option life. Expense recognized in the profit or loss is disclosed in Note 8.

#### 25 Capital commitments

Significant capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2021	2020
	HK\$'000	HK\$'000
Capital commitments contracted for, but not provided in the statement of financial position	<b>5,670</b>	5,227

#### 26 Related party transactions

The following material transactions were carried out between the Bank and its related parties during the year. These related party transactions were carried out in the ordinary course of business and at commercial terms.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 26 Related party transactions (Continued)

##### (a) Group companies

	2021 HK\$'000	2020 HK\$'000
<b>For the year ended 31 December</b>		
Interest income <sup>3</sup>	1,059	—
Purchase of intangible assets <sup>1</sup>	7,997	—
Prepayment of IT expenses <sup>1</sup>	4,348	—
IT costs <sup>1</sup>	4,113	—
Other operating expenses <sup>2</sup>	865	—
	<u>18,000</u>	<u>—</u>
<b>At 31 December</b>		
<b>Assets</b>		
Due from the ultimate holding company <sup>3</sup>	18,000	—
	<u>18,000</u>	<u>—</u>
<b>Liabilities</b>		
Due to fellow subsidiaries <sup>3</sup>	18,166	12,200
	<u>18,166</u>	<u>12,200</u>

Note:

1. During the year, the Bank's fellow subsidiaries have provided services for the Bank regarding the Bank's system developments. The total amounts incurred were RMB13,572,000 (equivalent to HK\$16,458,000), which have been accounted for by the Bank in its financial statements as described above.
2. During the year, the Bank has entered into an agreement with its fellow subsidiary for the period from 1 August 2021 to 31 July 2022 for business consultancy services. The amounts incurred for the year amounted to HK\$865,000.
3. The interest income and terms in relation to the amounts due from/to group companies are set out in Note 16.

## WELAB BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 26 Related party transactions (Continued)

##### (b) Directors and key management personnel emoluments

Emoluments for directors and key management personnel, including amounts paid to the Bank's directors as disclosed in Note 10 as follows:

	2021 HK\$'000	2020 HK\$'000
Salaries, other short-term employee benefits and directors' fee	24,981	19,564
Pension	170	–
Share-based compensation	5,463	4,407
	<u>30,614</u>	<u>23,971</u>

##### (c) Transactions and balances with directors and key management personnel

For the year ended 31 December 2021 and 2020, the Bank has banking transactions with directors and key management personnel of the Bank and their close family members. These transactions mainly include taking of deposits, which are made in the ordinary course of business and on commercial terms, and are not material.

#### 27 Subsequent event

The Bank renewed the interest bearing unsecured facility of HK\$18,000,000 to Welab Holdings Limited for one year upon its maturity in January 2022.

In January 2022, the Bank issued 35,000,000 ordinary shares to Welab Capital Limited for a consideration of HK\$35,000,000.

In February and March 2022, the Bank issued 50,000,000 ordinary shares each to Welab Capital Limited for a consideration of HK\$50,000,000 each.

A total of 135,000,000 ordinary shares were issued by the Bank to Welab Capital Limited after the year end for a total consideration of HK\$135,000,000.

#### 28 Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 11 April 2022.

## WELAB BANK LIMITED

### UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

#### CORPORATE GOVERNANCE REPORT

The Bank is committed to high standards of corporate governance and complies with the guidelines issued by the HKMA in the SPM Module CG-1 on “Corporate Governance of Locally Incorporated Authorized Institutions”. To accomplish this, the Bank exercises corporate governance through the following Committees.

#### 1. Board of Directors

The Board of Directors of the Bank (the “Board”) is responsible for the overall management and affairs of the Bank and is primarily accountable to the shareholder(s) for the proper conduct of the business of the Bank. The Board delegates the management and day-to-day running of the Bank to the Chief Executive and the Alternate Chief Executives in accordance to the direction determined by the Board. Other matters which the Board considers suitable for delegation are contained in the terms of reference of its committees as follows:

##### Board Committees

##### a. Executive Committee

The Executive Committee provides leadership and ensure strong governance across all matters related to the Bank. The committee is responsible for the day-to-day operations and administration of the Bank within the framework of the Bank’s policies and act in accordance to the direction determined by the Board of Directors of the Bank to maximize and protect the value of the Bank. The committee is chaired by the Chief Executive and its members include Chief Compliance Officer, Chief Risk Officer, Chief Technology Officer, Head of Operations, Deputy Chief Financial Officer, Head of Regulatory Compliance, Head of Financial Crime Compliance, and Head of Human Resources, while Head of Internal Audit and Head of Growth Operations and Strategy is the standing invitee.

##### b. Remuneration Committee

The Remuneration Committee is responsible to the Board for formulating remuneration policy and remuneration proposals of all staff, in particular, Directors, the Chief Executive, Alternate Chief Executives and senior management of the Bank and overseeing its implementation. The committee in determining the remuneration proposals shall ensure consistency with the Bank’s culture, long-term business and risk appetite, performance and control environment and relevant legal requirements and rules and guidance published by regulatory authorities. It consists of:

Dr. LAM Lee G (Chairman)	Independent Non-Executive Director
Mr. Donald Jeffrey ROBERTS	Independent Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

## WELAB BANK LIMITED

### UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

#### CORPORATE GOVERNANCE REPORT

##### 1. Board of Directors (Continued)

###### Board Committees (Continued)

###### c. Nomination Committee

The Nomination Committee is responsible to the Board for leading the process for Board appointments and for identifying and nominating for the approval of the Board, candidates for the appointment to the Board. It also has responsibility of identifying individuals suitably qualified to become members of senior management and selecting, or making recommendations to the Board on the selection of, individuals nominated for senior management positions. It consists of:

Dr. LAM Lee G (Chairman)	Independent Non-Executive Director
Mr. Donald Jeffrey ROBERTS	Independent Non-Executive Director
Ms. CHANG Suk Ling Irene	Independent Non-Executive Director
Prof. CHAN Ka Keung Ceajer	Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

###### d. Risk Committee

The Risk Committee is responsible for ensuring an appropriate risk management framework, overseeing and monitoring the various risks affecting the Bank including technology risk. The committee reviews and supports the implementation of the risk management strategies, risk appetites and key risk management policies based on the guidelines and directives of the HKMA. The committee interacts regularly with and oversees the Chief Risk Officer and also receives regular risk reports from the Chief Risk Officer and the risk management function of the Bank. It consists of:

Ms. CHANG Suk Ling Irene (Chairperson)	Independent Non-Executive Director
Mr. Donald Jeffrey ROBERTS	Independent Non-Executive Director
Dr. LAM Lee G	Independent Non-Executive Director
Prof. CHAN Ka Keung Ceajer	Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

###### e. Audit Committee

The Audit Committee is established to assist the Board of the Bank in ensuring the adequacy of the internal control systems and reinforcing the work of internal audit function and external auditors and in fulfilling its duties through a review and supervision of the Bank's financial reporting. It oversees the establishment of the Bank's accounting policies and procedures, approves the internal and external audit plans, reviews reports and recommendations provided by the internal and external audit functions, and reports significant findings, if any to the Board in relation to any deficiencies in the Bank's internal control system. It consists of:

Mr. Donald Jeffrey ROBERTS (Chairman)	Independent Non-Executive Director
Ms. CHANG Suk Ling Irene	Independent Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

# WELAB BANK LIMITED

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### CORPORATE GOVERNANCE REPORT

#### 1. Board of Directors (Continued)

##### Sub-committees of Risk Committee

##### a. Asset and Liability Committee

The Asset and Liability Committee is responsible for the effective management of the assets and liabilities of the Bank, which includes overseeing the Bank's operations relating to interest rate risk, liquidity risk, market risk and capital management. The members are appointed by the Chief Executive who chairs the meetings, and standing members comprise the Chief Executive, Deputy Chief Financial Officer, Chief Risk Officer, Chief Business Officer, Head of Product, Head of Balance Sheet and Capital Management and Corporate Controller.

##### b. Risk Management Committee

The Risk Management Committee is responsible for overseeing the effective management of credit risk, operational risk, reputational risk, regulatory risk, legal risk and strategic risk arising from the Bank's activities. This committee also covers risks associated with non-compliance with external rules and regulations relating to Financial Crime (i.e. money laundering, terrorist financing, sanctions, fraud and bribery corruption). The members are appointed by the Chief Executive, including the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Chief Compliance Officer, Deputy Chief Financial Officer, Chief Technology Officer, Head of Operations, Head of Credit, Head of Card, Head of Product, Head of Operational Risk, Head of Technology Risk, Head of Financial Crime Compliance, Head of Regulatory Compliance and Head of Wealth Management. Meetings are chaired by the Chief Risk Officer, or in his/her absence, the Chief Executive or his/her delegate.

#### 2. Disclosure on Remuneration System

The Remuneration Committee is delegated by the Board of the Bank and is independent of management. The Remuneration Committee is responsible to review remuneration policies and practices on annual basis or when necessary to ensure the remuneration policy is consistent with the principles set out under the HKMA Supervisory Policy Manual CG-1, CG-5 and other legal requirements. Two thirds of the Remuneration Committee are Independent Non-executive Director ("INED"). One Remuneration Committee meeting was held in the year of 2021.

##### *Key Principles of Remuneration Policy*

The remuneration policy and its implementation are subject to regular (at least annual) review by the Board of the Bank or the Remuneration Committee to ensure that the policy remains adequate and market competitive and that the operation of the remuneration system is consistent with the prevailing regulatory requirements and long term interests of the Bank. The policy applies to all staff members who are employed by the Bank. The principles of the Policy are as follows:

- a. Reinforce a business culture based on the highest ethical standards;
- b. Manage risks to the Bank by encouraging prudent decision-making and in line with the objectives, business strategies and long-term goals of the Bank;

## WELAB BANK LIMITED

### UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

#### CORPORATE GOVERNANCE REPORT

##### 2. Disclosure on Remuneration System (Continued)

###### *Key Principles of Remuneration Policy (Continued)*

- c. Reflect regulatory guidance in compensation program;
- d. Attract and retain the best talent to lead the Bank to success;
- e. Remunerate all staff members fairly and reasonably according to the individual level of competence and performance;
- f. Performance evaluation is based on the balance of financial and non-financial factors including effective risk and people management;
- g. Remuneration practices are set against comparable industry norms and to promote a “pay for performance” culture.

###### *Structure of Remuneration*

The Bank’s remuneration structure shall promote behaviour amongst staff members that supports the Bank’s risk management framework and long-term financial soundness. The Bank’s remuneration package consists of both fixed and variable (discretionary) compensation. Fixed remuneration refers to base salary (guaranteed) and allowance. Variable remuneration refers to variable bonus and shares or share-linked instruments such as share options or awards. An appropriate balance between fixed and variable remuneration will reflect the seniority, role and responsibilities of each staff member. The proportion of variable remuneration to total remuneration will increase in line with the seniority and job responsibilities of each staff member.

###### *Senior Management & Key Personnel*

Senior Management (including Chief Executive and Alternate Chief Executives) are responsible for oversight of the Bank’s strategy or activities or material business lines. Key Personnel are those reported under HKMA as “Managers” whose action may have a material impact on the risk exposure of the Bank.

###### *Performance Measurement for Variable Remuneration*

The award of variable remuneration shall depend on the fulfilment of budget income, peer group performance comparison and risk control factors. These criteria should include both financial, non-financial and risk factors. In allocating variable remuneration, the following factors should be taken into consideration:

- a. Overall performance of the Bank;
- b. Performance of the relevant business units; and
- c. Contribution of individual staff member to such performance; and
- d. Risk control functions’ input on the performance of relevant business unit and its staff members

## **WELAB BANK LIMITED**

### **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**

#### **CORPORATE GOVERNANCE REPORT**

##### **2. Disclosure on Remuneration System (Continued)**

###### *Performance Measurement for Variable Remuneration (Continued)*

The total amount of variable remuneration may be reduced in the event of an actual or expected deterioration in the financial performance of the Bank or staff misconduct (e.g. internal fraud, data leakage or damage to property etc.). The Chief Executive of the Bank has the authority to exercise discretion and flexibility to withhold all or part of the variable remuneration.

The remuneration of staff members in risk control functions should be determined in accordance with their performance objectives and should be independent of the performance of business units which they oversee.

###### *Deferral Arrangement*

A portion of variable remuneration may subject to deferral which will allow staff members' performance, including the associated risks, to be observed and validated over a period of time before payment is actually made and the adjustment of the amount to be paid will enable the remuneration ultimately received by staff members to more accurately reflect risk and risk outcomes.

##### **3. Internal Audit**

The Internal Audit function as the third line of defence is to provide independent and objective assurance to the Board and the Audit Committee on the quality and effectiveness of the Bank's risk management, internal controls, governance framework and processes. Internal Audit function adopts a risk-based approach in its auditing activities. The internal auditors are responsible to and report to the Audit Committee.