



# AIRSTAR BANK LIMITED

REPORT OF DIRECTORS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2022

## REPORT OF THE DIRECTORS

The directors submit this report together with the audited financial statements for the year ended 31 December 2022 (the “year”).

### Principal activities

The principal activity of Airstar Bank Limited (“the Bank”) is to carry out banking and related financial services as a virtual bank in Hong Kong.

### Address of Registered Office

The Bank is a company incorporated in Hong Kong and has its registered office at Suites 3201-07, 32/F., Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong.

### 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 Gravitation Fintech HK Limited.

### Results and appropriations

The results of the Bank for the year are set out in the statement of profit or loss on page 8.

The directors do not recommend the payment of a dividend.

### Donations

The Bank made no charitable and other donations during the year.

### Shares issued during the year

Details of shares issued during the year are set out in Note 21 to the financial statements.

### Debentures issued during the year

No debentures were issued during the year.

### Equity linked agreements

No equity-linked agreements that will or may result in the Bank issuing shares or that requires the Bank to enter into any agreements that will or may result in the Bank issuing shares was entered into by the Bank during the year or subsisted at the end of the year.

## REPORT OF THE DIRECTORS

### Directors of the Bank

#### Chairman and Non-Executive Director

Mr. Lam, Sai Wai Alain

#### Executive Director

Mr. Hu, Wei

#### Non-Executive Directors

Mr. Lau, Suet Chiu Frederic (Resigned on 10 February 2023)

Mr. Zee, Ho Sum (Appointed on 10 February 2023)

#### Independent Non-Executive Directors

Mr. Cheng, Hoi Chuen Vincent (Ceased on 29 August 2022)

Prof. Mao, Zhenhua

Prof. Tong, Wai Cheung Timothy

Mr. Wong, Shun Tak

All directors will continue in office.

### **Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Bank's business**

Save as disclosed in Note 24 to the financial statements, no transactions, arrangements and contracts of significance in relation to the Bank's business to which the Bank's parent companies or its fellow subsidiaries was a party and in which directors of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **Directors' interests in the shares and debentures of the Bank or any specified undertaking of the Bank**

At no time during the year, the Bank or its parent companies or its fellow subsidiaries a party to any arrangement to enable the directors of the Bank to hold any interests in the shares or debentures of the Bank or its specified undertakings.

### **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.

## REPORT OF THE DIRECTORS

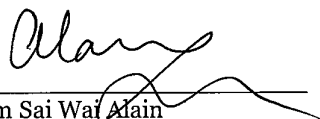
### Permitted indemnity provisions

A permitted indemnity provision as set out in the articles of association of the Bank that provides for indemnity against liability incurred by directors of the Bank is currently in force and was in force throughout the year.

### Auditor

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

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Alain', with a long horizontal flourish extending to the right.

Lam Sai Wai Alain  
Chairman

Hong Kong, 24 March 2023

**Independent Auditor's Report**

To the Members of Airstar Bank Limited  
(incorporated in Hong Kong with limited liability)

**Opinion***What we have audited*

The financial statements of Airstar Bank Limited (the "Bank"), which are set out on pages 8 to 48, comprise:

- the balance sheet as at 31 December 2022;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("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.

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## **Independent Auditor's Report**

To the Members of Airstar Bank Limited (Continued)  
(incorporated in Hong Kong with limited liability)

### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Report of the Directors and 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.

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

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

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

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

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### **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.





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## **Independent Auditor's Report**

To the Members of Airstar Bank Limited (Continued)  
(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, 24 March 2023

## STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 HK\$000	2021 HK\$000
Interest income	5	88,799	66,317
Interest expense	6	(25,963)	(24,569)
<b>Net interest income</b>		62,836	41,748
Net loss from investment in securities		(716)	(2,557)
Other income	9	2,764	956
<b>Total income</b>		64,884	40,147
Operating expenses	7	(230,002)	(257,700)
Finance costs	8	(1,320)	(678)
Impairment losses		(33,386)	(26,024)
Bad debt recovery		87	-
<b>Loss before income tax</b>		(199,737)	(244,255)
Income tax expense	10	-	-
<b>Loss for the year</b>		(199,737)	(244,255)

The notes on pages 13 to 48 form part of these financial statements.



**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

	Notes	2022 HK\$000	2021 HK\$000
<b>Loss for the year</b>		(199,737)	(244,255)
<b>Other comprehensive income, net of tax:</b>			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of financial assets at fair value through other comprehensive income ("FVOCI")		(4,263)	(2,217)
Transfer to income statement on disposal and redemption of financial assets at FVOCI		(350)	-
		<hr/>	<hr/>
<b>Total comprehensive income for the year</b>		(204,350)	(246,472)
		<hr/>	<hr/>

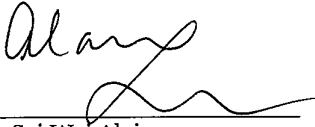
The notes on pages 13 to 48 form part of these financial statements.

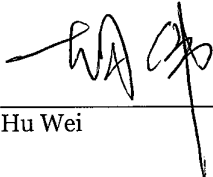
**BALANCE SHEET**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

	Notes	2022 HK\$000	2021 HK\$000
<b>Assets</b>			
Balances with banks	11	367,690	459,573
Placement with banks	11	312,789	351,486
Investment in securities	13	956,576	1,299,202
Loans and advances to customers	12	801,191	932,137
Prepayment and other assets	14	48,279	38,955
Property and equipment	16	17,012	29,734
Right-of-use assets	15	51,466	11,111
Intangible assets	17	105,463	105,388
<b>Total Assets</b>		<b>2,660,466</b>	<b>3,227,586</b>
<b>Liabilities</b>			
Deposits from customers	18	1,799,430	2,202,960
Other payables and accruals	19	49,890	46,665
Lease liabilities	15	49,462	10,184
Make good provision		3,418	6,330
<b>Total Liabilities</b>		<b>1,902,200</b>	<b>2,266,139</b>
<b>Equity</b>			
Share capital	21	1,500,000	1,500,000
Other reserves	26	17,568	21,012
Accumulated losses		(759,302)	(559,565)
<b>Total Equity</b>		<b>758,266</b>	<b>961,447</b>
<b>Total Liabilities and Equity</b>		<b>2,660,466</b>	<b>3,227,586</b>

The notes on pages 13 to 48 form part of these financial statements.

The financial statements on pages 8 to 48 were approved by the Board of Directors on 24 March 2023 and were signed on its behalf.

  
Lam Sai Wai Alain

  
Hu Wei

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital HK\$000	Other reserves HK\$000	Accumulated losses HK\$000	Total equity HK\$000
<b>Balance as at 31 December 2020</b>		1,500,000	18,346	(315,310)	1,203,036
Total comprehensive income		-	(2,217)	(244,255)	(246,472)
Employee share scheme	22	-	5,420	-	5,420
Regulatory reserve	23	-	(537)	-	(537)
<b>Balance as at 31 December 2021</b>		1,500,000	21,012	(559,565)	961,447
Total comprehensive income		-	(4,613)	(199,737)	(204,350)
Employee share scheme	22	-	1,169	-	1,169
Regulatory reserve	23	-	-	-	-
<b>Balance as at 31 December 2022</b>		1,500,000	17,568	(759,302)	758,266

The notes on pages 13 to 48 form part of these financial statements.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

	Notes	2022 HK\$000	2021 HK\$000
<b>Cash flows from operating activities</b>			
Loss before income tax		(199,737)	(244,255)
Adjustments for:			
Interest income	5	(88,799)	(66,317)
Interest expense	6	25,963	24,569
Interest on lease liabilities	8	1,157	493
Bad debt recovery		(87)	-
Impairment losses		33,386	26,024
Depreciation of property and equipment	16	17,201	18,137
Depreciation of right-of-use assets	15	13,237	20,772
Amortisation of intangible assets	17	29,968	21,208
Employee share scheme	22	1,169	5,420
Changes in:			
Loans and advances to customers		98,024	(406,878)
Placement with banks with original maturity beyond 3 months		-	195,000
Prepayment and other assets		(7,596)	(7,541)
Deposits from customers		(403,530)	625,185
Other payables and accruals		(1,405)	(18,200)
Interest received		87,071	63,462
Interest paid		(21,032)	(23,787)
Net cash (used) / generated from operating activities		(415,010)	233,292
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(30,043)	(43,584)
Purchase of property and equipment		(4,479)	(719)
Purchase of Investment in securities		(839,207)	(1,519,776)
Proceeds from disposal and redemption of Investment in securities		1,176,843	1,442,837
Net cash generated / (used) in investing activities		303,114	(121,242)
<b>Cash flows from financing activities</b>			
Payment of lease liabilities		(18,684)	(20,148)
Net cash used in financing activities		(18,684)	(20,148)
<b>Net change in cash and cash equivalents</b>		(130,580)	91,902
<b>Cash and cash equivalents at the beginning of year</b>		811,059	719,157
<b>Cash and cash equivalents at end of year</b>	20	680,479	811,059

The notes on pages 13 to 48 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 General information

Airstar Bank Limited (the “Bank”) is a private limited liability company incorporated in Hong Kong Special Administrative Region (“Hong Kong”) of the People’s Republic of China (the “PRC”) on 13 July 2018. It is a licensed bank authorised under the Hong Kong Banking Ordinance since 9 May 2019. The principal activity of the Bank is to carry out banking and related financial services as a virtual bank in Hong Kong and was officially launched on 11 June 2020.

The Bank is wholly-owned by Gravitation Fintech HK Limited, a company incorporated in Hong Kong. The Bank’s ultimate holding company is Xiaomi Corporation, a company incorporated in the Cayman Islands and is listed in Hong Kong.

The address of the Bank’s registered office is Suites 3201-07, 32/F, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong.

### 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 in the year presented, unless otherwise stated.

#### 2.1 Statement of compliance and basis of preparation

The financial statements of the Bank have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The financial statements are presented in Hong Kong dollars and rounded to the nearest thousands, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of Investment in securities measured at FVOCI. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Certain comparative figures in the notes have been adjusted to conform with presentation in the current year.

#### 2.2 Amendments that are initially adopted for the financial year beginning on 2022

Standards/ Amendments/ Interpretations	Content	Applicable for financial years beginning on/after	Currently relevant to the Bank
Accounting Guideline 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022	Yes
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022	Yes
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022	Yes
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022	Yes

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.3 New standards and interpretations not yet adopted by the Bank

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting periods 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.

Standards/ Amendments/ Interpretations	Content	Applicable for financial years beginning on/after	Currently relevant to the Bank
HKAS 1 (Amendments)	Classification of Current or Non-current Liabilities	1 January 2023	No
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023	Yes
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023	Yes
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	Yes
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	Yes
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023	No

#### 2.4 Leases

##### 2.4.1 Definition of lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### 2.4.2 The Bank as a lessee

Leases are recognised 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;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.4 Leases (continued)

##### 2.4.2 The Bank as a lessee (continued)

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

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

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

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 are recognised 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.

#### 2.5 Financial assets

##### 2.5.1 Classification and recognition

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

- those to be measured subsequently at fair value (either through other comprehensive income "OCI", or through profit or loss), and
- those to be measured at amortised 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 profit or loss or other comprehensive income. Reclassification of financial assets are prohibited unless the Bank changes its business model for managing financial assets. In practice, this is expected to be infrequent.



## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.5 Financial assets (continued)

##### 2.5.1 Classification and recognition (continued)

Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Bank commits to purchase or sell the asset.

See Note 3.1 (d) for details of each type of financial asset.

##### 2.5.2 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, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.5 Financial assets

##### 2.5.3 Impairment

The Bank recognises a loss allowance for expected credit losses (“ECLs”) on the following items:

- financial assets measured at amortised cost; and
- debt securities measured at FVOCI.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive).

The expected cash shortfalls are discounted where the effect of discounting is material. The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk. Where the financial instrument such as revolving credit facilities includes both a drawn and undrawn commitment, ECL is measured over the period that the Bank remains exposed to credit risk that is not mitigated by management actions in respect of credit risk.

In measuring ECLs, the Bank takes into account reasonable and supportable information that is available. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; or
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Bank will account for expected credit losses within the next 12 months as Stage 1 when those financial instruments are initially recognised; and to recognise lifetime expected credit losses as Stage 2 when there has been significant increases in credit risk since initial recognition. Lifetime expected credit losses will be recognised for credit-impaired financial instruments as Stage 3 if the future cash flows of that financial instruments are adversely affected by one or more events and interest income will then be accrued net of the impairment amount of the respective Stage 3 financial assets.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Bank recognises an impairment gain or loss for all relevant financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI, for which the loss allowance is recorded in the fair value reserve.

When a financial asset is uncollectible, it is written off against the gross carry amount of the financial asset and the related allowance for impairment losses. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. The assets written off are still subject to enforcement activity. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

##### 2.5.4 Derecognition

Financial assets are derecognised 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.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.6 Property and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

- |                         |              |
|-------------------------|--------------|
| • Leasehold improvement | 3 years      |
| • Furniture and fixture | 5 years      |
| • Computer equipment    | 3 to 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 profit or loss.

#### 2.7 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned and controlled by the Bank. Intangible assets are stated at acquisition cost less accumulated amortisation and impairment. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

##### 2.7.1 Software

Intangible assets included software acquired externally and capitalised development costs of computer software programmes. Acquired software are initially recognised as intangible assets and measured at costs incurred to acquire and bring them to use. They are amortised on a straight-line basis over 5 years, and recorded in amortisation within operating expenses in the statement of profit or loss.

##### 2.7.2 Research and development expenditures

Research expenditure is recognised 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 recognised 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;
- 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.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### **2.7 Intangible assets (continued)**

##### **2.7.2 Research and development expenditures (continued)**

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Directly attributable costs that are capitalised as part of the software include employee costs.

Capitalised development costs are recorded as intangible assets and amortised on the straight-line basis from the point at which the asset is ready for use and over its expected economic life, which is 5 years.

#### **2.8 Impairment of non-financial assets**

Intangible assets with a definite useful life that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### **2.9 Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalents include balances with banks and placement with banks with the original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **2.10 Provisions**

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

#### **2.11 Make good provision**

Make good provision is recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using 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 recognised as interest expense.

#### **2.12 Financial liabilities**

Financial liabilities represent other payables and accruals, lease liabilities, and deposits from customers. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### **2.13 Share capital**

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

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.14 Employee Benefits

##### 2.14.1 Short term obligations

Liabilities for wages and salaries, including unused annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as accruals in the balance sheet.

##### 2.14.2 Retirement benefits scheme

The Bank operates a mandatory provident fund scheme ("MPF Scheme") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee – administered funds. The Bank's contributions to MPF Scheme are expensed as incurred.

##### 2.14.3 Bonus plans

The expected cost of bonuses is recognised as a liability when the Bank has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

#### 2.15 Equity-settled share-based payment transactions

The ultimate holding company of the Bank operates a share award scheme, under which the Bank receives services from employees as consideration for equity instruments (restricted shares units ("RSUs")) issued by the ultimate holding company. Information relating to the scheme is set out in Note 22.

The award is treated as an equity-settled share-based payment in the Bank's financial statements as the Bank does not have an obligation to settle the award. The fair value of the services received in exchange for the grant of RSUs is recognised as an expense in profit or loss over the vesting period with a corresponding increase in equity. The credit to equity is treated as a capital contribution.

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

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

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

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.16 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.

(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); or
- (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.

#### 2.17 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss. Foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within operating expenses.

#### 2.18 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired.

#### 2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions.

Government grants relating to costs are deferred and recognised under operating expenses in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.20 Current and deferred income tax

The income tax expense for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

##### 2.20.1 Current income tax

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### 2.20.2 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 2.21 Comparative figures

Certain comparative figures in the notes have been adjusted to conform with presentation in the current year.



## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management

#### 3.1 Financial risk factors

The Bank's overall risk management framework focuses on identifying risks inherent from its business and managing the risks within the acceptable level as defined by the Bank's risk appetite for achieving its strategic objectives. Risk management is carried out by individuals within the 3 Lines of Defence in accordance with the Board approved policies under the oversight by senior management and the Board of Directors.

The Bank's activities expose itself to the following major financial risks: credit risk, liquidity risk and market risk.

##### a) Credit risk

The Bank is exposed to credit risk in relation to balances and placement with banks, investment in securities, loans and advances to customers and other assets, which are carried at amortised cost and fair value through other comprehensive income.

The Bank does not hold collateral or other credit enhancements associated with financial assets. The carrying amounts of each class of the above financial assets represent the Bank's maximum exposure to credit risk in relation to financial assets.

##### Management of credit risk

The Bank's credit risk management policy has been formulated according to the risk appetite approved by the Board of Directors, the Hong Kong Monetary Authority ("HKMA") guidelines and other statutory requirements. The credit policy defines risk governance, credit products offered, underwriting criteria, approval and monitoring processes, credit rating, the loan classification and provisioning. The Bank adopts a 3-stage approach expected credit loss model to measure impairment allowance in accordance with the impairment requirements under HKFRS 9 standard. Risk Management Department will review, and update where required, this policy on an annual basis, or more frequent if considered necessary.

The Board has delegated credit approval authorities to the Chief Executive who then sub-delegated the same to the Chief Risk Officer. The Chief Risk Officer further delegated the credit approval authorities to selected credit approvers, based on their experience and expertise. The Chief Risk Officer has the overall executive responsibility to oversee the management of credit risk through formulating credit policies and procedures, overseeing the credit quality of the Bank's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues. Credit approvers perform independent reviews and approvals of credit applications by ensuring that a borrower meets underwriting standards of the Bank and complies with relevant rules and regulations. Credit performance of loan portfolio are presented to Risk Management Committee on a monthly basis for review and oversight.

##### Credit exposure and credit quality

Credit risk exposure of financial instruments is the gross carrying amount of financial assets. The Bank adopts the loan classification categories under the HKMA classification system, which are either classified as "Pass", "Special Mention", "Substandard", "Doubtful" or "Loss". For impairment allowance measurement, a 3-stage approach expected credit loss model is adopted in accordance with the impairment requirements under HKFRS 9 standard.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### a) Credit risk (continued)

###### Significant increase in credit risk

Significant increase in credit risk since initial recognition is assessed based on information that is available without undue cost or effort and that is relevant to financial instruments. An expected credit loss provision will be recognised over the lifetime of the asset if financial instruments experience significant increase in credit risk.

Financial instruments, that are over 30 days past due and not credit-impaired, or any early signs of cashflow/liquidity problems, are considered to have significant increase in credit risk.

###### Credit-impaired / Default

A financial instrument is considered as credit-impaired or default when it meets one or more of the following criteria:

- borrower is more than 90 days past due on its contractual payments
- borrower is in significant financial difficulty
- borrower is in long-term forbearance
- borrower is deceased
- borrower is insolvent
- borrower is in breach of financial covenant(s)
- borrower is bankrupt or will enter bankruptcy

###### Write-off policy

The Bank writes off financial instrument in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Collection action may be suspended under the following circumstances:

- the customer has passed away, filed bankruptcy petition or/ and applied Individual Voluntary Arrangement (“IVA”);
- the Bank is undergoing specific processes in relation to bankruptcy of or debt restructuring for the customer; and
- specific requirements as a result of litigation or police/fraud investigation against the concerned account.

For written-off accounts, recovery actions shall not cease if recovery opportunity is still present. To cease recovery actions, due diligence on the customer should be done and the approval from the Chief Risk Officer should be sought.

###### Measurement of Expected Credit Loss (“ECL”)

The impairment requirements under HKFRS 9 standard are based on an ECL concept that requires the recognition of ECL in a timely and forward-looking manner.

ECL model is adopted to measure impairment allowance. It estimates the expected credit losses at reporting date based on either an estimate of 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in the credit risk of the financial instrument since initial recognition.

Financial instruments are classified into three stages using up-to-date information at reporting date to determine whether 12-month ECL or lifetime ECL is used.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### a) Credit risk (continued)

##### Measurement of Expected Credit Loss (“ECL”) (continued)

Financial instruments that are not considered to have significant increase in credit risk since initial recognition or low credit risk at reporting date are classified in Stage 1 and are evaluated for impairment using 12-month ECL.

Financial instruments that are considered to have significant increase in credit risk since initial recognition but not credit-impaired are classified in Stage 2. Financial instruments, which are credit-impaired, are classified in Stage 3. Financial instruments classified in Stage 2 or Stage 3 are evaluated using lifetime ECL.

The calculation of ECL incorporates forward-looking information that several key macroeconomic factors and their forecast are included in the ECL model. Assumption of forward looking economic is incorporated in the probability of default model parameters which consist of key macroeconomic factors that will influence the credit risk.

ECL is sensitive to key macroeconomic factors as follows:

- Hong Kong Unemployment Rate
- Hong Kong Property Price Index
- Hong Kong GDP

The forecast of the macroeconomic factors is determined using reasonable and supportable information that is available without undue cost or effort. The forecast of macroeconomic factors is updated in a regular basis and subjected to the availability of external sources.

The following table shows the projected 2023 annual average of Hong Kong GDP growth rate, Hong Kong Unemployment Rate and Hong Kong Property Price Index comparing the corresponding base scenarios in the fourth quarters of 2021 and 2022.

Base scenarios	HK GDP		HK Unemployment Rate		HK Property Price Index	
	4Q2022 Growth %	4Q2021 Growth %	4Q2022 %	4Q2021 %	4Q2022	4Q2021
2023 annual average	1.1	3.5	5.3	3.2	390.7	400.6

ECL is estimated based on key inputs of probability of default (“PD”), loss given default (“LGD”), expected exposure at the time of default (“EAD”) and discounted in the basis of time value of money. To take into account of different potential economic condition, probability-weighted ECL under 3 possible outcomes of different economic scenario (base, bad and good scenario) is derived. The base scenario was assigned an 80% probability while the good and bad scenarios were each assigned a 10% probability. The scenario weighting remains unchanged in 2022 and 2021. The ECL measurement has taken into the consideration of COVID-19 impact regarding the scenario projection that incorporates latest available data sources. The economic forecasts significantly affect ECL. The following table shows the ECL movement of loans and advances to customers if the ECL balance 100% based on the base scenario, the good scenario and the bad scenario as of 31 December 2022.

Loans and advances to customers (in HK\$’000)		
Scenarios	31 December 2022	31 December 2021
Reported ECL	37,685	22,618
100% Base scenario	(1,430)	(578)
100% Good scenario	(5,884)	(2,313)
100% Bad scenario	17,329	6,938

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### a) Credit risk (continued)

As of 31 December 2022 and 31 December 2021, the Bank's financial assets comprise balances and placement with banks, Investment in securities, loans and advances to customers and other assets. Balances and placement with banks are short dated and with counterparties of investment graded assigned by designated External Credit Assessment Institutions ("ECAI") whereas other assets are treated as receivables in the normal course of business and management considered the credit risk for such are minimal and has insignificant amount of ECL. Investment in securities are considered to have low credit risk as all of them are with counterparties of investment grades assigned by ECAI and majority of them are limited to 12 months expected credit loss under stage 1.

During the year, the following losses were recognised in profit or loss:

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Impairment losses		
- Impairment losses on loans and advances to customers	33,009	26,767
- Impairment losses on other financial assets	274	(59)
Impairment losses on financial assets at amortised cost	33,283	26,708
- Impairment losses on financial assets at FVOCI	103	(147)
Impairment losses on financial assets	33,386	26,561

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### a) Credit risk (continued)

The following table shows reconciliation from the opening to the closing balance of the gross carrying amount and impairment allowance of loans and advances to customers.

HK\$'000	Stage 1		Stage 2		Stage 3		Total	
	<u>Gross carrying amount</u>	<u>ECL</u>	<u>Gross carrying amount</u>	<u>ECL</u>	<u>Gross carrying amount</u>	<u>ECL</u>	<u>Gross carrying amount</u>	<u>ECL</u>
<b>Balance as of 31 December 2020</b>	<b>556,487</b>	<b>4,501</b>	<b>44</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>556,531</b>	<b>4,505</b>
Transfer to stage 2	(6)	(1)	6	1	-	-	-	-
Transfer to stage 3	(3,784)	(167)	(44)	(4)	3,828	171	-	-
Net remeasurement of impairment allowance	-	1,917	-	2	-	3,581	-	5,500
Net loans and advances to customers originated, top-up and repayments	397,473	12,683	630	325	8,776	8,260	406,879	21,268
Net Write-off	-	-	-	-	(8,655)	(8,655)	(8,655)	(8,655)
<b>Balance as of 31 December 2021</b>	<b>950,170</b>	<b>18,933</b>	<b>636</b>	<b>328</b>	<b>3,949</b>	<b>3,357</b>	<b>954,755</b>	<b>22,618</b>
Transfer to stage 2	(1,419)	(38)	1,419	38	-	-	-	-
Transfer to stage 3	(16,595)	(1,040)	(636)	(328)	17,231	1,368	-	-
Net remeasurement of impairment allowance	-	9,456	-	1,022	-	15,693	-	26,171
Net loans and advances to customers originated, top-up and repayments	(107,535)	(1,063)	890	697	8,708	7,204	(97,937)	6,838
Net Write-off	-	-	-	-	(17,942)	(17,942)	(17,942)	(17,942)
<b>Balance as of 31 December 2022</b>	<b>824,621</b>	<b>26,248</b>	<b>2,309</b>	<b>1,757</b>	<b>11,946</b>	<b>9,680</b>	<b>838,876</b>	<b>37,685</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### a) Credit risk (continued)

##### Credit quality

##### Loans and advances to customers

	Stage 1 12-month ECL HK\$'000	Stage 2 Life time ECL HK\$'000	Stage 3 Life time ECL HK\$'000	Total HK\$'000
<b>At 31 December 2022</b>				
<b>Credit grade:</b>				
Pass	824,621	-	-	824,621
Special Mention	-	2,309	2,643	4,952
Substandard	-	-	7,547	7,547
Doubtful	-	-	1,756	1,756
Loss	-	-	-	-
<b>Gross carrying amount</b>	<b>824,621</b>	<b>2,309</b>	<b>11,946</b>	<b>838,876</b>
<b>Expected credit loss provision</b>	<b>26,248</b>	<b>1,757</b>	<b>9,680</b>	<b>37,685</b>
<b>Net carrying amount</b>	<b>798,373</b>	<b>552</b>	<b>2,266</b>	<b>801,191</b>
<b>At 31 December 2021</b>				
<b>Credit grade:</b>				
Pass	950,170	-	-	950,170
Special Mention	-	636	-	636
Substandard	-	-	1,626	1,626
Doubtful	-	-	2,323	2,323
Loss	-	-	-	-
<b>Gross carrying amount</b>	<b>950,170</b>	<b>636</b>	<b>3,949</b>	<b>954,755</b>
<b>Expected credit loss provision</b>	<b>18,933</b>	<b>328</b>	<b>3,357</b>	<b>22,618</b>
<b>Net carrying amount</b>	<b>931,237</b>	<b>308</b>	<b>592</b>	<b>932,137</b>

The following tables present an analysis of the carrying value of Investment in securities by rating from external credit agencies and stage classification:

	2022 HK\$000	2021 HK\$000
<b>Investment in securities – At fair value through OCI</b>		
Credit grade:		
AAA	43,115	-
AA+ to AA-	155,054	185,706
A+ to A-	281,324	575,158
BBB+ to BBB-	23,277	108,590
Carrying amount	502,770	869,454
Of which: Stage 1 expected credit loss provision	126	23
<b>Investment in securities – At amortised cost</b>		
Credit grade:		
A+ to A-	406,712	410,421
BBB+ to BBB-	47,388	19,347
Gross carrying amount	454,100	429,768
Of which: Stage 1 expected credit loss provision	(294)	(20)
Net carrying amount	453,806	429,748

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### a) Credit risk (continued)

##### Geographical concentration

The analysis of the Bank's gross loans and advances to customers by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies if the claim is guaranteed by a party in a country which is different from that of the counterparty. As of 31 December 2022 and 31 December 2021, the Bank's gross loans and advances to customers are mostly located in Hong Kong.

##### b) Liquidity risk

Liquidity risk in the Bank is defined as the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they become due or only being able to meet these obligations at excessive costs. The Bank maintains adequate level of high quality assets and diversified funding base in meeting its short-term obligations and long-term needs under normal circumstances or stress scenarios. The Board of Directors ("the Board") represents the highest authority of the Bank which is ultimately responsible for the overall asset and liability management, including the liquidity risk management. Delegated by the Board, the Risk Committee ("RC") is a board level committee responsible for establishing the liquidity risk management framework and overseeing the liquidity and funding risk management of the Bank.

The Bank has established the Liquidity and Funding Risk Management Policy which setting out approaches for liquidity and funding risk management. The policy requires the Bank to conduct ongoing and periodic review of a set of liquidity metrics, including but not limited to regulatory requirements to ensure that the liquidity exposures is effectively captured and monitored. In addition, daily cash flow analysis is required to ensure that the Bank has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress.

Treasury has the overall first line responsibilities for effective liquidity and funding position management where Risk Management Department has the overall second line responsibilities for the liquidity monitoring and control process, including policies preparation and limits setting. Any breach of the pre-defined thresholds of these metrics or analysis results will be escalated to Asset Liability Committee ("ALCO"), Risk Management Committee ("RMC") and RC, where appropriate. The Bank's Contingency Funding Plan would be ready for activation in severe situations.



## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### b) Liquidity risk (continued)

##### Maturity analysis

The tables below analyse the Bank's assets and liabilities as at 31 December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date:

##### At 31 December 2022

(in HK\$'000)	Repayable on demand	Up to 6 months	6-12 months	Over 1 year	Total
<b>Assets</b>					
Balance with banks	367,690	-	-	-	367,690
Placements with banks	-	312,789	-	-	312,789
Investment in securities	-	268,184	87,035	601,357	956,576
Loans and advances to customers	409	145,765	128,893	526,124	801,191
Prepayment and other assets	105	20,515	14,254	13,405	48,279
<b>Total financial assets</b>	<b>368,204</b>	<b>747,253</b>	<b>230,182</b>	<b>1,140,886</b>	<b>2,486,525</b>
<b>Liabilities</b>					
Deposits from customers	410,489	1,258,391	130,550	-	1,799,430
Other payables and accruals	-	49,006	884	-	49,890
Lease liabilities	-	8,137	7,435	33,890	49,462
<b>Total financial liabilities</b>	<b>410,489</b>	<b>1,315,534</b>	<b>138,869</b>	<b>33,890</b>	<b>1,898,782</b>
<b>Net position</b>	<b>(42,285)</b>	<b>(568,281)</b>	<b>91,313</b>	<b>1,106,996</b>	<b>587,743</b>

##### At 31 December 2021

(in HK\$'000)	Repayable on demand	Up to 6 months	6-12 months	Over 1 year	Total
<b>Assets</b>					
Balance with banks	459,573	-	-	-	459,573
Placements with banks	-	351,486	-	-	351,486
Investment in securities	-	493,443	271,991	533,768	1,299,202
Loans and advances to customers	263	188,767	118,528	624,579	932,137
Prepayment and other assets	29	14,381	2,416	22,129	38,955
<b>Total financial assets</b>	<b>459,865</b>	<b>1,048,077</b>	<b>392,935</b>	<b>1,180,476</b>	<b>3,081,353</b>
<b>Liabilities</b>					
Deposits from customers	638,929	1,529,547	34,484	-	2,202,960
Other payables and accruals	8,017	37,819	187	-	46,023
Lease liabilities	-	9,268	665	251	10,184
<b>Total financial liabilities</b>	<b>646,946</b>	<b>1,576,634</b>	<b>35,336</b>	<b>251</b>	<b>2,259,167</b>
<b>Net position</b>	<b>(187,081)</b>	<b>(528,557)</b>	<b>357,599</b>	<b>1,180,225</b>	<b>822,186</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### b) Liquidity risk (continued)

The following table details the Bank's cash flows as at 31 December for non-derivative financial liabilities by remaining contractual maturity. The table below has been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate.

##### Non-derivative cash flows

###### 2022

(in HK\$'000)	Repayable on demand	Up to 6 months	6-12 months	Over 1 year	Total
<b>Liabilities</b>					
Deposits from customers	410,489	1,258,391	130,550	-	1,799,430
Other payables and accruals	-	49,006	884	-	49,890
Lease liabilities	-	9,004	8,172	35,453	52,629
<b>Total</b>	<b>410,489</b>	<b>1,316,401</b>	<b>139,606</b>	<b>35,453</b>	<b>1,901,949</b>

###### 2021

(in HK\$'000)	Repayable on demand	Up to 6 months	6-12 months	Over 1 year	Total
<b>Liabilities</b>					
Deposits from customers	638,929	1,529,547	34,484	-	2,202,960
Other payables and accruals	8,017	37,819	187	-	46,023
Lease liabilities	-	9,325	671	256	10,252
<b>Total</b>	<b>646,946</b>	<b>1,576,691</b>	<b>35,342</b>	<b>256</b>	<b>2,259,235</b>

##### c) Market risk

The Bank takes on exposure to market risks, which is risk of losses arising from adverse movements in market factors and prices relative to the position undertaken. Open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market factors, such as foreign exchange rates, interest rates, and credit spreads.

The Bank's interest rate risk exposure arises from mismatch of assets and liabilities in the banking book impact to the Bank's capital adequacy and earning from adverse movements in interest rate, i.e. Interest Rate Risk in Banking Book (IRRBB). It is inherent in the banking book positions, including both on and off-balance sheet item e.g. customers deposits, loans and advance and treasury investment activities.

The Bank does not have any trading portfolio which market risk exposures mainly arise from the foreign exchange risk of non-trading portfolios and IRRBB.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### c) Market risk (continued)

###### Management of market risk

The Board represent the highest authority whom is ultimately responsible for ensuring effective market risk management, including IRRBB. RC, delegated by the Board, is responsible for establishing the market risk and IRRBB management of the Bank. ALCO and RMC, accountable to RC, representing the senior management risk oversight at 1st line and 2nd line of defence respectively in relation to market risk and IRRBB management. Treasury has the first line responsibilities on managing the Bank's market risk and IRRBB risk profile and ensuring relevant risk exposure arising are within policy requirements. Risk Management Department has the second line responsibilities for setting policies and relevant risk metrics for monitoring and reporting to ensure in compliance with regulatory requirements. In particular, those policies and risk limits will be reviewed and updated on a regular basis to conform with the regulatory requirements and market standards.

An independent risk management and control function is responsible for monitoring the market risk and IRRBB exposures against the prescribed limits and requirements and ALCO and RMC provide the management oversight on the market risk management framework.

The interest rate risk impact on capital adequacy and earnings, which measured by Economic Value Equity ("EVE") sensitivity and Net Interest Income respectively, are introduced, together with limits, to measure and monitor the interest rate risk exposure of the Bank. Starting from 2021, the Bank adopts the standardised framework, as prescribed in HKMA SPM IR-1, for IRRBB exposure measurement and monitoring. Risk report on IRRBB risk profile are measured by Risk Management Department and prepared for different level of governance on a regular basis.

###### *Sensitivity*

According to the approach mandated by regulatory requirement, the impact on earning which measured by net interest income sensitivity would decrease by HK\$5,556,000 (2021: HK\$4,866,000) and increase by HK\$4,961,000 (2021: HK\$4,282,000) under parallel up and parallel down scenario respectively.

###### Interest rate benchmark reform

In March 2021, the UK Financial Conduct Authority (FCA) announced the date on which LIBOR will be discontinued. All GBP, CHF, EUR, JPY London Interbank Offered Rate (LIBOR) settings and the one-week and two-month USD LIBOR settings had discontinued after 31 December 2021. The remaining USD LIBOR settings will discontinue after 30 June 2023.

The Bank has defined and executed the implementation plan for IBOR reform. The existing limited exposures is intended and manageable to hold only for balance sheet management purpose. Management considered that the risk and the impact to be Bank is immaterial.

	Carrying amount at 31 December 2022	Have yet to transition to an alternative benchmark interest rate as at 31 December 2022	Carrying amount at 31 December 2021	Have yet to transition to an alternative benchmark interest rate as at 31 December 2021
	HK\$000	HK\$000	HK\$000	HK\$000
<b>Measured at amortised cost</b>				
Investment in securities	32,032	32,032	31,851	31,851

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### c) Market risk (continued)

##### Foreign exchange risk

The Bank undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. The following table illustrates the carrying amount of the Bank's foreign currency denominated monetary assets and liabilities. It indicates the concentration of currency risk at the end of the reporting year:

(HK\$'000 equivalent)	31 December 2022		31 December 2021	
	USD	CNY	USD	CNY
<b>Assets</b>				
Balances with banks	45,674	14,176	82,923	13,143
Placement with banks	116,976	25,813	210,511	70,975
Investment in securities	616,435	113,328	759,647	114,427
Other assets	5,451	9,316	5,848	1,515
<b>Liabilities</b>				
Deposits from customers	54,784	159,545	104,115	191,355
Other payables and accruals	244	1,438	550	10,771

##### *Foreign exchange sensitivity*

The Bank is exposed to USD and no sensitivity analysis is prepared as the management considered that the effect is insignificant under the linked exchange rate system.

The following table details the Bank's sensitivity to a 5% (2021: 5%) increase and decrease in HK\$ against CNY. The 5% is the sensitivity rate used when reporting the foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjust their translation at the year end at 5% change in foreign currency rates. For a 5% strengthening/weakening of the HK\$ against CNY, the impact on the loss after tax would be as follows:

(in HK\$'000)	2022	2021
Loss after tax	83/(83)	103/(103)

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### d) Financial instruments by category

The Bank's financial instruments include the following:

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Financial assets measured at amortised cost		
- Balances with banks	367,690	459,573
- Placement with banks	312,789	351,486
- Investment in securities	453,806	429,748
- Loans and advances to customers	801,191	932,137
- Other assets	24,029	14,491
Financial assets measured at FVOCI		
- Investment in securities	502,770	869,454
	<u>2,462,275</u>	<u>3,056,889</u>
Financial liabilities measured at amortised cost		
- Deposits from customers	1,799,430	2,202,960
- Other payables and accruals	49,890	46,023
- Lease liabilities	49,462	10,184
	<u>1,898,782</u>	<u>2,259,167</u>

#### 3.2 Capital management

Capital Management Policy of the Bank sets out the guideline in relation to the oversight, monitoring and management of the maintenance of an adequate amount of capital, with reference to the Supervisory Policy Manual ("SPM") - "CA-G-1 Overview of Capital Adequacy Regime for Locally Incorporated Authorised Institutions" and "CA-G-5 Supervisory Review Process".

The Bank's capital management strategy is defined as:

- ensuring capital management meets regulatory requirements;
- fully identify, measure, monitor and control all major risks to ensure that the Bank's capital level is compatible with the risk and risk management level it faces;
- ensure that the Bank's capital planning is matched with the operating conditions, risk trends and long-term development strategies; and
- optimize the asset structure, rationally allocate economic capital, and ensure the sustainable and healthy development of the Bank.

The Bank has complied with the capital requirements imposed by HKMA throughout 2022 and 2021.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Financial risk management (continued)

#### 3.3 Fair value estimation

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amounts of the Bank's financial instruments are assumed to approximate their fair values, because of the short-term maturities of these instruments.

The following table provides an analysis of Investment in securities measured at FVOCI, grouped into Levels 1 to 3 on the degree to which the fair value is observable.

	2022 HK\$000	2021 HK\$000
Fair value hierarchy		
- Level 1	502,770	869,454
- Level 2	-	-
- Level 3	-	-
	<hr/>	<hr/>
<b>Total</b>	502,770	869,454
	<hr/>	<hr/>

There are no transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the year ended 31 December 2022 and 31 December 2021.

In estimating the fair value of the Investment in securities classified as Level 1, the fair value is arrived at with reference to the unadjusted quoted prices in active market.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

#### *Critical accounting estimate – ECL*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1.

#### *Critical accounting estimate – Taxation*

The Bank is subject to income tax in Hong Kong. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

As at 31 December 2022 and 31 December 2021, no deferred tax assets have been recognised 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 5 Interest income

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Interest income arising from:		
Financial assets measured at amortised cost	78,960	55,418
Financial assets measured at FVOCI	9,839	10,899
	<hr/>	<hr/>
<b>Total</b>	<b>88,799</b>	<b>66,317</b>
	<hr/>	<hr/>

### 6 Interest expense

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Interest expense arising from:		
Financial liabilities measured at amortised cost	25,963	24,569
	<hr/>	<hr/>
<b>Total</b>	<b>25,963</b>	<b>24,569</b>
	<hr/>	<hr/>

### 7 Operating expenses

	<b>Notes</b>	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Auditor's remuneration		2,161	2,193
Depreciation of property and equipment	16	17,201	18,137
Depreciation of right-of-use assets	15	13,237	20,772
Amortisation of intangible assets	17	29,968	21,208
Staff costs		108,386	119,452
- Salaries, allowances and benefits in kind		101,959	108,041
- Retirement benefit		5,258	5,991
- Employee share scheme	22	1,169	5,420
Legal and professional fees		5,084	6,290
Other operating expenses		53,965	69,648
- Marketing and agency fee		13,976	34,063
- Information services fee		31,099	32,331
- Others		8,890	3,254
		<hr/>	<hr/>
<b>Total</b>		<b>230,002</b>	<b>257,700</b>
		<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### 8 Finance costs

	Notes	2022 HK\$000	2021 HK\$000
Interest on lease liabilities	15	1,157	493
Bank charges		163	185
		<hr/>	<hr/>
<b>Total</b>		<b>1,320</b>	<b>678</b>
		<hr/>	<hr/>

### 9 Other income

	2022 HK\$000	2021 HK\$000
Government subsidy	2400	-
Other income	364	956
	<hr/>	<hr/>
<b>Total</b>	<b>2,764</b>	<b>956</b>
	<hr/>	<hr/>

During the year ended 31 December 2022, the Bank successfully applied for funding support from the Employment Support Scheme under the Anti-Epidemic Fund, with total amount of HK\$ 2,400,000 (2021: Nil) set up by the Government of Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Bank is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

### 10 Income tax expense

Hong Kong profits tax has been provided at the effective rate of 16.5% on the estimated assessable profits arising in Hong Kong.

#### (a) Income tax expense

	2022 HK\$000	2021 HK\$000
Current income tax	-	-
Deferred income tax	-	-
	<hr/>	<hr/>
<b>Total</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### 10 Income tax expense (continued)

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

	2022 HK\$000	2021 HK\$000
<b>Loss before income tax</b>	(199,737)	(244,255)
Tax at the Hong Kong tax rate of 16.5%	(32,957)	(40,302)
Tax effects of:		
Tax effect of expenses not deductible	10,080	4,131
Temporary difference not recognised	(7,619)	(884)
Tax effect of tax losses not recognised	30,496	37,055
	<hr/>	<hr/>
<b>Income tax expense</b>	-	-
	<hr/>	<hr/>

As at 31 December 2022, the Bank had estimated unused and unrecognised tax losses of approximately HK\$812,077,000 available for offset against future profits (2021: HK\$629,472,000). No deferred tax assets have been recognised in respect of such losses due to unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

### 11 Balances and placement with banks

	2022 HK\$000	2021 HK\$000
Balances with banks		
- Balances with banks	83,507	105,961
- Due from HKMA	284,183	353,612
Less: Impairment allowances	-	-
	<hr/>	<hr/>
<b>Total</b>	367,690	459,573
	<hr/>	<hr/>

Balances with banks are mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

	Notes	2022 HK\$000	2021 HK\$000
Placement with banks maturing			
- On or less than 3 months	20	312,789	351,486
Less: Impairment allowances		-	-
		<hr/>	<hr/>
<b>Total</b>		312,789	351,486
		<hr/>	<hr/>

Placement with banks are denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 31 December 2022 and 31 December 2021, there were no impaired, overdue or rescheduled balances and placement with banks.

## NOTES TO THE FINANCIAL STATEMENTS

### 12 Loans and advances to customers

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Gross loans and advances to customers	838,876	954,755
Less: Impairment allowances		
- Stage 1	(26,248)	(18,933)
- Stage 2	(1,757)	(328)
- Stage 3	(9,680)	(3,357)
<b>Total</b>	<b>801,191</b>	<b>932,137</b>

### 13 Investment in securities

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Investment in securities measured at:		
- FVOCI	502,770	869,454
- Amortised cost	454,100	429,768
Less: Impairment allowances – Stage 1	(294)	(20)
<b>Total</b>	<b>956,576</b>	<b>1,299,202</b>
Issued by:		
- Sovereigns	109,937	124,453
- Banks	188,372	552,723
- Corporates and Financial institutions	658,267	622,026
<b>Total</b>	<b>956,576</b>	<b>1,299,202</b>

As at 31 December 2022 and 31 December 2021, there were no impaired, overdue or rescheduled Investment in securities.

### 14 Prepayment and other assets

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
Prepayment	24,250	24,464
Interest receivables	12,392	10,664
Amount due from Immediate holding company	496	405
Others	11,141	3,422
<b>Total</b>	<b>48,279</b>	<b>38,955</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 15 Leases

The balance sheet shows the following amounts relating to leases:

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
<b>Right-of-use assets</b>		
Office and centres	37,367	8,814
Equipment and server racks	14,099	2,297
	<hr/>	<hr/>
<b>Total</b>	<b>51,466</b>	<b>11,111</b>
	<hr/>	<hr/>
<b>Lease liabilities</b>		
Current	15,572	9,933
Non-current	33,890	251
	<hr/>	<hr/>
<b>Total</b>	<b>49,462</b>	<b>10,184</b>
	<hr/>	<hr/>

Additions to the right-of-use assets during the year were HK\$53,592,000 (2021: HK\$594,000). The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 4% (2021: 2.55%).

The statement of profit or loss shows the following amounts relating to leases:

	<b>2022</b> <b>HK\$000</b>	<b>2021</b> <b>HK\$000</b>
<b>Depreciation of right-of-use assets</b>		
Office and centres	7,184	15,766
Equipment and server racks	6,053	5,006
	<hr/>	<hr/>
<b>Total</b>	<b>13,237</b>	<b>20,772</b>
	<hr/>	<hr/>
Interest expense (included in finance costs)	1,157	493
Expense relating to short-term leases (included in operating expenses)	364	691

The total cash outflow for leases for the year was HK\$18,684,000 (2021: HK\$20,148,000).

## NOTES TO THE FINANCIAL STATEMENTS

### 16 Property and equipment

	Leasehold improvement HK\$000	Furniture and fixture HK\$000	Computer equipment HK\$000	Total HK\$000
<b>Cost</b>				
At 31 December 2020	14,144	2,025	47,200	63,369
Additions	252	-	467	719
At 31 December 2021	14,396	2,025	47,667	64,088
Additions	-	-	4,479	4,479
At 31 December 2022	14,396	2,025	52,146	68,567
<b>Accumulated depreciation</b>				
At 31 December 2020	(6,000)	(462)	(9,755)	(16,217)
Depreciation charge	(4,769)	(405)	(12,963)	(18,137)
At 31 December 2021	(10,769)	(867)	(22,718)	(34,354)
Depreciation charge	(3,255)	(405)	(13,541)	(17,201)
At 31 December 2022	(14,024)	(1,272)	(36,259)	(51,555)
<b>Carrying Amount</b>				
At 31 December 2021	3,627	1,158	24,949	29,734
At 31 December 2022	372	753	15,887	17,012

## NOTES TO THE FINANCIAL STATEMENTS

### 17 Intangible assets

	HK\$000
<b>Cost</b>	
At 31 December 2020	93,524
Addition	43,584
	<hr/>
At 31 December 2021	137,108
Addition	30,043
	<hr/>
At 31 December 2022	167,151
	<hr style="border-top: 1px dotted;"/>
<b>Accumulated Amortisation</b>	
At 31 December 2020	(10,512)
Amortisation charge	(21,208)
	<hr/>
At 31 December 2021	(31,720)
Amortisation charge	(29,968)
	<hr/>
At 31 December 2022	(61,688)
	<hr style="border-top: 1px dotted;"/>
<b>Carrying Amount</b>	
At 31 December 2021	105,388
	<hr style="border-top: 3px double;"/>
At 31 December 2022	105,463
	<hr style="border-top: 3px double;"/>

### 18 Deposits from customers

	2022 HK\$000	2021 HK\$000
Current and saving accounts	410,489	638,929
Time deposits	1,388,941	1,564,031
	<hr/>	<hr/>
<b>Total</b>	1,799,430	2,202,960
	<hr style="border-top: 3px double;"/>	<hr style="border-top: 3px double;"/>

## NOTES TO THE FINANCIAL STATEMENTS

### 19 Other payables and accruals

	Notes	2022 HK\$000	2021 HK\$000
Accrued interest payable		8,622	3,691
Accrued expenses		11,948	11,722
Amount due to fellow subsidiaries	24	196	8,017
Bonus and other payable		29,124	23,235
<b>Total</b>		<b>49,890</b>	<b>46,665</b>

### 20 Analysis of the balances of cash and cash equivalents

	2022 HK\$000	2021 HK\$000
Balances with banks	367,690	459,573
Placement with banks	312,789	351,486
<b>Total</b>	<b>680,479</b>	<b>811,059</b>

### 21 Share capital

	Number of shares	2022 & 2021 HK\$000
Ordinary shares issued and fully paid	1,500,000,000	1,500,000
<b>Total</b>	<b>1,500,000,000</b>	<b>1,500,000</b>

There is no movements of ordinary shares for the year ended 31 December 2022 and 31 December 2021.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Bank do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.



## NOTES TO THE FINANCIAL STATEMENTS

### 22 Employee share scheme

#### Restricted Stock Unit ("RSUs") Awards

The ultimate holding company granted RSUs awards to the employees of the Bank and the grantee are entitled to the ordinary shares of the ultimate holding company for no cash consideration. The shareholders' rights of these shares were restricted and would be vested over 4 years upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement.

Movements in the number of RSUs granted to the Bank's employees and the respective weighted average grant date fair value are as follows:

	Number of shares	Weighted average grant date fair value per RSUs HK\$
Balance as at 31 December 2020	3,416,391	9.38
Granted	93,347	26.20
Forfeited	(284,257)	9.73
	<hr/>	
Balance as at 31 December 2021	3,225,481	9.84
Granted	953,070	10.37
Forfeited	(907,764)	11.37
	<hr/>	
Balance as at 31 December 2022	3,270,787	9.57
	<hr/> <hr/>	

The weighted average remaining contract life for outstanding RSUs was 3.14 years as of 31 December 2022 (2021: 1.73 years).

The fair value of each RSUs at the grant dates were determined by reference to the fair value of the ordinary shares of the ultimate holding company that issued to its shareholders.

The total expenses recognised in the statement of profit or loss for aforementioned share-based awards granted to the Bank's employees were HK\$1,169,000 as of 31 December 2022 (2021: HK\$5,420,000).

### 23 Regulatory reserve

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur on loans and advances. As at 31 December 2020, HK\$537,000 was earmarked as the regulatory reserve from the accumulated losses. Movements in the reserve are made directly through the accumulated losses. The amount was reversed in full during the year ended 31 December 2021 as the provisions of the Banking Ordinance for prudential supervision purposes is satisfied. As at 31 December 2022, nil (2021: nil) was earmarked as the regulatory reserve from the accumulated losses.

## NOTES TO THE FINANCIAL STATEMENTS

### 24 Related party transactions

#### a) Parent entities

The Bank is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest
Gravitation Fintech HK Limited	Immediate holding company	Hong Kong	100%
Xiaomi Finance H.K. Limited	Intermediate holding company	Hong Kong	90%
AMTD Group Company Limited	Intermediate holding company	British Virgin Islands	10%
Xiaomi Corporation	Ultimate holding company	Cayman Islands	90%*

\*Xiaomi Corporation holds 100% of the issued ordinary shares of Xiaomi Finance H.K. Limited.

All related party transactions were carried out on terms similar to those applicable to transactions with unrelated parties.

#### b) Transactions with related parties

Relationship	Nature	2022 HK\$000	2021 HK\$000
Fellow subsidiary	Provision of IT support services	76	92
Fellow subsidiary	Provision of marketing services	179	-
Intermediate holding company	Provision of group insurance	3,955	3,519

#### c) Outstanding balances due from/(to) related parties

Relationship	Nature	2022 HK\$000	2021 HK\$000
Immediate holding company	Payment on behalf of professional expenses	496	405
Fellow subsidiaries	Provision of IT support / system development service	(17)	(8,017)
Fellow subsidiaries	Provision of marketing services	(179)	-
Intermediate holding company	Provision of group insurance	2,741	2,407
Intermediate holding company	Provision of group insurance	(733)	(350)
Close member of key management personnel in Ultimate holding company	Deposits from customers	(31,912)	(31,649)

## NOTES TO THE FINANCIAL STATEMENTS

### 24 Related party transactions (continued)

#### d) Key management personnel compensation

	2022 HK\$000	2021 HK\$000
Short-term employee benefits	19,884	20,133
Retirement benefit	1,097	893
Employee share scheme	1,854	4,874
	<hr/>	<hr/>
<b>Total</b>	<b>22,835</b>	<b>25,900</b>
	<hr/> <hr/>	<hr/> <hr/>

### 25 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:

	2022 HK\$000	2021 HK\$000
Directors' fees	1,900	2,100
Salaries, allowances and benefits in kind	-	-
Retirement benefit	-	-
Employee share scheme	-	-
	<hr/>	<hr/>
<b>Total</b>	<b>1,900</b>	<b>2,100</b>
	<hr/> <hr/>	<hr/> <hr/>

All remuneration received by the directors from the Bank are for their services in connection with the management of the affairs of the Bank.

During the year, no consideration was provided to or receivable by third parties for making available directors' services. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

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

There was 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 26 Other reserves

	<b>FVOCI reserve HK\$000</b>	<b>Regulatory reserve HK\$000</b>	<b>Other reserve HK\$000</b>	<b>Total HK\$000</b>
At 31 December 2020	1,172	537	16,637	18,346
Other comprehensive income for the year	(2,217)	(537)	5,420	2,666
At 31 December 2021	(1,045)	-	22,057	21,012
Other comprehensive income for the year	(4,613)	-	1,169	(3,444)
At 31 December 2022	(5,658)	-	23,226	17,568

### 27 Notes to the statement of cash flows

#### Reconciliation of liabilities arising from financing activities

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

	<b>HK\$000</b>
<b>Lease liabilities</b>	
<b>At 1 January 2021</b>	<b>29,245</b>
Changes from financing cash flows:	
Repayment of lease liabilities	(20,148)
<b>Total changes from financing cash flows</b>	<b>(20,148)</b>
Other changes:	
Additions to lease liabilities	594
Interest expense on lease liabilities	493
<b>Total other changes</b>	<b>1,087</b>
<b>At 31 December 2021</b>	<b>10,184</b>
<b>At 1 January 2022</b>	<b>10,184</b>
Changes from financing cash flows:	
Repayment of lease liabilities	(18,684)
<b>Total changes from financing cash flows</b>	<b>(18,684)</b>
Other changes:	
Additions to lease liabilities	56,805
Interest expense on lease liabilities	1,157
<b>Total other changes</b>	<b>57,962</b>
<b>At 31 December 2022</b>	<b>49,462</b>

### 28 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2023.

## CORPORATE GOVERNANCE REPORT (Unaudited)

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

### Corporate Governance Practices and Objectives

Airstar Bank Limited (the “Bank”) is a licensed bank and one of virtual banks in Hong Kong. The Bank is under the supervision of the Hong Kong Monetary Authority (“HKMA”). The board of directors of the Bank (the “Board” or “Directors”) is fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the Supervisory Policy Manual Module CG-1 “Corporate Governance of Locally Incorporated Authorised Institutions” issued by the HKMA. Special committees with clear terms of references and specific authorities delegated by Board have been set up.

### The Board

The Board currently comprises six members, including one Executive Director, two Non-Executive Directors and three Independent Non-Executive Directors. All Directors possess appropriate experience and competence to discharge their responsibilities effectively.

The Composition of the Board for the year ended 31 December 2022 (the “Year”)

#### Chairman and Non-Executive Director

Mr. Lam Sai Wai Alain

#### Executive Director

Mr. Hu Wei

#### Non-Executive Directors

Mr. Lau Suet Chiu Frederic (Resigned on 10 February 2023)

Mr. Zee Ho Sum (Appointed on 10 February 2023)

#### Independent Non-Executive Directors

Mr. Cheng Hoi Chuen Vincent (Ceased on 29 August 2022)

Prof. Mao Zhenhua

Prof. Tong Wai Cheung Timothy

Mr. Wong Shun Tak

Board meetings shall be held in any event no less than once every quarter. During the Year, the Board held ten meetings (including six meetings by way of circulation of written resolutions).

### Board-level Committees

The Bank has set-up four board-level committees including the Audit Committee, Risk Committee, Nomination and Remuneration Committee and Connected Party Transactions Committee.

#### 1. Audit Committee

The Audit Committee is formed to assist the Board in ensuring the adequacy of internal control systems and reinforcing the work of internal and external auditors while offering the Board an independent review of the integrity and effectiveness of the financial reporting process. The Audit Committee meetings shall be held on a quarterly basis and two meetings will coincide with the year-end and interim financial reporting cycles. The members of Audit Committee will meet at least annually with the external auditors and Head of Internal Audit individually without other management being present.

The Audit Committee comprises of two Independent Non-Executive Directors, namely Mr. Wong Shun Tak (Chairman) and Prof. Tong Wai Cheung Timothy. During the Year, the Audit Committee held four meetings.

## **CORPORATE GOVERNANCE REPORT (Unaudited)**

### **2. Risk Committee**

The Risk Committee is responsible to discharge the duties relating to overall risk management. It oversees the risk management framework, ensures the risks exposed are properly managed and advises the Board on the risk-related matters and the level of risk exposed is commensurate with the Bank's risk appetite, risk management systems and risk management measures. The Risk Committee meetings shall be held on a quarterly basis and the Risk Committee may from time to time, request ad hoc reports in addition to such reports submitted under the Risk Committee meeting agenda, from Chief Risk Officer if considered necessary.

The Risk Committee comprises of two Independent Non-Executive Directors, namely Mr. Wong Shun Tak and Prof. Mao Zhenhua. During the Year, the Risk Committee held four meetings.

### **3. Nomination and Remuneration Committee**

The Nomination and Remuneration Committee is formed to assist the Board in discharging its responsibility for nomination, remuneration and bank culture related matters. The Nomination and Remuneration Committee meetings shall be held at least once every year or more frequently as the chairman of the Nomination and Remuneration Committee deems necessary.

The Nomination and Remuneration Committee comprises of two Independent Non-Executive Directors, namely Prof. Mao Zhenhua (Chairman) and Prof. Tong Wai Cheung Timothy. During the Year, the Nomination and Remuneration Committee held sixteen meetings (including twelve meetings by way of circulation of written resolutions).

### **4. Connected Party Transactions Committee**

The Connected Party Transactions Committee is formed to assist the Board in overseeing the connected party transactions of the Bank and ensuring those transactions are properly reviewed and approved. The Connected Party Transactions Committee Meetings shall be held with such frequency and at such time as the chairman of the Connected Party Transactions Committee may determine.

The Connected Party Transactions Committee comprises of three Independent Non-Executive Directors, namely Tong Wai Cheung Timothy (Chairman), Mr. Wong Shun Tak and Mr. Mao Zhenhua. During the Year, the Connected Party Transactions Committee held seven meetings (including three meetings by way of circulation of written resolutions).

## **Management-level Committees**

In addition to the Board-level committees, the Bank has set-up a Management Committee and five sub-committees to oversee and implement business strategies, risk management systems and internal controls.

### **1. Management Committee**

The Management Committee has the responsibility for exercising all of the power, authorities and discretions of the Board in so far as they concern the management, operations and day-to-day running of the Bank in accordance with relevant laws and regulations as well as internal policies and directions as the Board may determine from time to time determine, with power to sub-delegate.

The Management Committee shall meet at least once a month. During the Year, the Management Committee met the meeting frequency requirements.

## **CORPORATE GOVERNANCE REPORT (Unaudited)**

### **2. Risk Management Committee (the “RMC”)**

The RMC is the formal governance committee for enterprise-wide risk management with focuses on risk culture, risk appetite, risk profile and consideration of risk into strategic planning and business decisions. It supports the Chief Risk Officer of the Bank on oversight of all risk taking and management activities across the 3 lines of defense.

The RMC is accountable to the Risk Committee. Material risk matters and issues discussed at the RMC meetings should be escalated to the Management Committee and Risk Committee for oversight or decisions, where appropriate.

### **3. Information Technology Committee (the “IT Committee”)**

IT Committee is formed in discharging its responsibility for overseeing the development, implementation, monitoring and review of the information technology infrastructure and services, and cybersecurity of the Bank.

### **4. Asset and Liability Committee (“ALCO”)**

The responsibility of ALCO is to ensure efficient implementation of the management of balance sheet, net interest income/ margin, liquidity risk and interest rate risk in the banking book (IRRBB) to ensure that capital management, earnings and the risk assumed is consistent with the overall risk appetite, to determine the Bank’s approach to balance sheet management and recovery and resolution planning.

### **5. New Product Committee**

The New Product Committee is formed to review and approve New Product development, launch and exit and to ensure that associated risks are adequately identified, assessed and managed in accordance with the New Product Policy approved by the Board.

### **6. Legal and Compliance Committee (“LCC”)**

The LCC is in assisting the Board and senior management in discharging its responsibility for overseeing and managing legal, regulatory compliance and financial crime compliance issues within the Bank, and ensuring the Bank’s strict compliance with applicable laws, regulatory requirements, internal rules, policies and procedures for its banking and regulated activities.

## **The Approach for Recruitment and Selection of Members of the Board and Senior Management**

The Board has established a Nomination and Remuneration Committee which is mandated to, amongst others, identify individuals suitably qualified to become members of the Board or senior management, and selecting, or making recommendations to the Board on the selection of, individuals nominated for directorships and senior management positions (based on the role and its responsibilities and the knowledge, experience and competence which the role requires), make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the chairman of the Board and the chief executive. The Nomination and Remuneration Committee shall also be made to the requirements in the HKMA circular dated 15 December 2021 on Corporate Governance related to the appointment of directors and Chief/Alternate Chief Executive and the routine reporting.

## **Major share ownership and related party transactions**

Please refer to the Audited Financial Statements for the year ended 31 December 2022.