Fusion Bank

富融銀行有限公司

Fusion Bank Limited

(incorporated in Hong Kong with limited liability)

REPORT OF DIRECTORS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2021

CONTENTS

CONTENTS	PAGE
Report of directors	2
Independent auditor's report	5
Consolidated statement of profit or loss and comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12

REPORT OF DIRECTORS

The Directors present the annual report and audited financial statements (which comprise the consolidated statement of profit or loss and comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes) for Fusion Bank Limited (the "Bank") and its subsidiary (together the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Bank is a licensed bank authorised under the Banking Ordinance in Hong Kong. The principal activities of the Bank are to provide banking services to its customers. The principal activities of the subsidiary are shown on note 10 of the consolidated financial statements.

BUSINESS REVIEW

The introduction of virtual bank is key for Hong Kong to enter the new era of intelligent banking. The Hong Kong Monetary Authority ("HKMA") believes, the development of virtual banks will continue to promote fintech and innovation in Hong Kong, and facilitate financial inclusion. Fusion Bank is among one of the eight licensed virtual banks in Hong Kong. Since its official opening on 21 December 2020, we are committed to building a smart ecosystem in financial services, bringing a new norm of wealth management to our customers and Hong Kong citizens benefiting from Tencent's prosperous ecosystem.

Fusion Bank is the first virtual bank connected to WeChat Pay HK. Customers are able to make a direct payment with the vast local payment network by pairing their WeChat Pay HK accounts. To support the development of green financing, we launched the first-in-market, tailor-made auto loan for Tesla, allowing customers to make a collateral-free loan drawdown for more financial liquidity. We are also the first virtual bank in Hong Kong to offer cross-border inward and outward remittance services, which allows our customers to send money easily to Mainland China, or receive funds from all over the world through Fusion Bank App at anytime, from anywhere.

In 2021, Fusion Bank recorded significant growth in various business segments including deposits, remittances, loans and forex trading, the number of customers continued to grow during this period. As of 31 December 2021, the number of customers has grown by 9 times, and the number of active users has increased by 7 times during the year. Fusion Bank App recorded over 210,000 downloads; the total deposit amount has exceeded HKD 3 billion, the number of loan applications increased by more than 10 times within 6 months, and the average daily forex trading also grown by 5 times compared to 2020. The total consumption amount made by customers through WeChat Pay HK has increased by nearly 2 times when compared to 2020.

The COVID-19 outbreaks have highlighted the significance of fintech and virtual banks. Strategically invested by Tencent Group and Industrial Commercial Bank of China, Fusion Bank takes full advantage of a virtual bank to provide "contactless, all online" financial services that are professional and highly efficient. Customers can open an account anytime and anywhere with their smartphones for a range of banking products and e-payment services, and continue to enjoy shopping at home with our special discount offers; even when shopping at a physical store, using contactless payment with Fusion Bank App can also minimize the risk of transmission.

Building from the rich heritage of our shareholders, we are committed to creating more usage scenarios for financial services, creating a platform that offer unexpected benefits and experiences. During the period the Hong Kong government launched the electronic Consumption Voucher Scheme, "Fusion 5,000 turns into 10,000", a joint campaign by Fusion Bank and WeChat Pay HK has received great responses from customers, and became the single highest channel for WeChat Pay HK for government consumption vouchers registration. Besides WeChat Pay HK, we also launched a number of collaborations including the music platform JOOX, mobile game PUBG MOBILE: PUBG M, McDonald's, Fresh Market on "Hong Kong Market" under Uni-China Group Holdings Ltd, 759 Store, and D-park shopping mall, bringing customers a range of daily spending discounts. We also co-sponsored the "2021 Beautiful Night Hong Kong New Year's Eve Concert", a large-scale countdown concert in Victoria Harbour with 10,000 participants that promotes the brand's exposure.

With the solid foundation of Fusion and the joint efforts from various teams, we are honored to garner the "Excellence Award for Virtual Banking Service" in "Sky Post Banking and Finance Awards 2021", reaffirming Fusion Bank's long term vision "Technology for Good, Infinity for You" that is recognized by the judges and the general public. The award is not only a recognition of our commitment in promoting financial inclusion, it also acknowledges our strength in product innovation and business development strategies.

At the same time, Fusion Bank also won awards in a number of fields including electronic know-your-customer (EKYC) face recognition and anti-money laundering capability, these were recognized by the Hong Kong Business Management Excellence Awards 2021, and the Joint Financial Intelligence Unit (JFIU).

As a licensed bank in Hong Kong, Fusion Bank strictly complied with the HKMA regulatory requirements and relevant HK laws, including the Deposit Protection Scheme Ordinance and the Personal Data (Privacy) Ordinance.

The bank is currently facing risks and uncertainties from both the digitalization of traditional banks and the fierce competition from other virtual banks. Looking forward to 2022, Fusion Bank sees a promising future amid growing competition, we will continue to promote fintech development in Hong Kong with the long term vision "Technology for Good, Infinity for You", offering new products and services, and promoting financial intelligence with a variety of online and offline events, to integrate fintech into our everyday life, helping Hong Kong to navigate through the pandemic with better services and experience.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and comprehensive income on page 8.

No interim dividends were paid to the sole shareholder during the year. The Directors do not recommend the payment of a final dividend.

SHARE CAPITAL

Details of the Bank's shares issued are set out in note 23 to the consolidated financial statements. The Bank received capital funding on 8 June 2021, 22 July 2021, 28 October 2021 from its shareholder amounting HK$175,000,000, HK$575,100,000, and HK$99,900,000 respectively.

DIRECTORS

The following Directors held office during the year and up to the date of this report:

Executive directors:

ZHOU, Ming	(appointed on 12 Nov 2021)
SUM, Chi Ho	

Non-executive directors:

LAI, Chi Ming Jimmy – Chairman	
ZHAN, Wei Biao	(resigned on 12 Nov 2021)
CHENG, Yun Ming Matthew	
GU, Xuan	
BAO, Haijie	

Independent non-executive directors:

XIAO, Suining
CHAN, Sheung Wai Charles
MA, Chi Kong Karl

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE BANK'S BUSINESS

No transactions, arrangements and contracts of significance to which the Bank, its holding companies or any subsidiaries of its holding companies were 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Bank provide that a Director or former Director of the Bank may be indemnified out of the Bank's assets against any liability incurred by the Director to a person other than the Bank in connection with any negligence, default, breach of duty or breach of trust in relation to the Bank.

AUDITOR

The financial statements for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Bank.

On behalf of the Board

LAI, CHI MING JIMMY
DIRECTOR
27 April 2022

pwc

羅兵咸永道

Independent Auditor's Report

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

Opinion

What we have audited

The consolidated financial statements of Fusion Bank Limited (the "Bank") and its subsidiaries (the "Group"), which are set out on pages 8 to 52, comprise:

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

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 Group 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.

Other Information

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

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 April 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

Year Ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Interest income		10,637	2,845
Interest expense		(25,645)	(658)
Net interest (expense)/income	*5*	(15,008)	2,187
Net fee and commission expenses	*6*	(3,924)	(509)
Other income	*7*	3,573	1,103
Operating expenses	*8*	(419,739)	(285,017)
Operating losses before impairment losses		(435,098)	(282,236)
Expected credit losses		(1,578)	(374)
Loss before income tax		(436,676)	(282,610)
Income tax	*9*	1,883	–
Loss after income tax		(434,793)	(282,610)
Total comprehensive loss for the year		(434,793)	(282,610)

The notes on pages 12 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year Ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
ASSETS			
Balances with central bank	11	453,237	97,671
Placements with and advances to banks	12	1,419,625	798,118
Investment assets at amortised cost	13	2,234,177	9,999
Loans and advances	14	152,238	–
Prepaid expenses		15,409	14,748
Other deposits and receivables	16	12,708	11,233
Right-of-use assets	17	7,741	15,111
Property, plant and equipment	18	59,872	73,018
Intangible assets	19	49,692	49,380
Deferred tax asset	20	1,898	–
TOTAL ASSETS		4,406,597	1,069,278
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	21	3,049,320	324,944
Deposits from related parties		218,313	15,505
Accruals and other payables	22	140,312	136,716
Lease liabilities	17	8,339	17,007
TOTAL LIABILITIES		3,416,284	494,172
EQUITY			
Share capital	23	1,850,001	1,000,001
Accumulated losses		(859,688)	(424,895)
Equity attributable to owners of the Bank		990,313	575,106
Total equity		990,313	575,106
TOTAL LIABILITIES AND EQUITY		4,406,597	1,069,278

The notes on pages 12 to 52 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 27 April 2022:

Signed on behalf of the Board

ZHOU, MING
DIRECTOR

SUM, CHI HO
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2021

	Notes	Share capital HKD'000	Accumulated losses HKD'000	Total HKD'000
At 1 January 2020		500,001	(142,285)	357,716
Capital contribution by the member	23	500,000	–	500,000
Loss for the year		–	(282,610)	(282,610)
At 31 December 2020 and 1 January 2021		1,000,001	(424,895)	575,106
Capital contribution by the member	23	850,000	–	850,000
Loss for the year		–	(434,793)	(434,793)
At 31 December 2021		1,850,001	(859,688)	990,313

The notes on pages 12 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Cash flows from operating activities			
Net cash flows generated from operating activities	24	2,392,268	137,868
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,556)	(29,613)
Purchase of intangible assets		(14,079)	(22,352)
Purchase of investment securities		(18,754,476)	(489,602)
Proceeds from maturity/sale of investment securities		16,530,551	479,602
Placements of bank deposits with original maturity beyond 3 months		(492,969)	(30,000)
Proceeds from placements of bank deposits with original maturity beyond 3 months		130,000	–
Interest received		281	398
Net cash flows used in investing activities		(2,616,248)	(91,567)
Cash flows from financing activities			
Payments of principal of financial lease	17	(11,842)	(5,624)
Interest elements of lease payments	17	(138)	(213)
Capital contribution by the member		850,000	500,000
Net cash flows generated from financing activities		838,020	494,163
Net change in cash and cash equivalents		614,040	540,464
Cash and cash equivalents at the beginning of the year		865,864	325,400
Cash and cash equivalents at the end of the year	24	1,479,904	865,864

The notes on pages 12 to 52 are an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Fusion Bank Limited (the "Bank") is a limited liability company incorporated in Hong Kong. The address of its registered office is 2/F InnoCentre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong. The name of the Bank has been changed from Infinium Limited to Fusion Bank Limited on 5 July 2019.

The principal activity of the Bank is the operation of virtual bank. On 9 May 2019, Hong Kong Monetary Authority granted a banking license under the Banking Ordinance to the Bank to operate in form of a virtual bank. The Bank had commenced its commercial operation on 21 December 2020.

As at 31 December 2021, the immediate and ultimate parent companies of the Bank are Infinium Hong Kong Holdings Limited and Tencent Holdings Limited ("Tencent Holdings") respectively. Tencent Holdings is a conglomerate incorporated in the Cayman Islands and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited.

These financial statements are presented in Hong Kong Dollar ("HKD"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors of the Group on 27 April 2022.

2. BASIS OF PREPARATION

Statement of compliance

Fusion Bank Limited and its subsidiary (together the "Group") has prepared its annual consolidated financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance Cap. 622.

The financial statements have been prepared on a historical cost basis.

New standards and interpretations adopted during the year

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

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

The Group also elected to adopt the following amendments early:

- Annual Improvements to HKFRS Standard 2018-2020 Cycle.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12, and
- COVID-19 related Rent Concessions beyond 30 June 2021

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

2. BASIS OF PREPARATION (Continued)

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. BASIS OF PREPARATION (Continued)

The going concern assumption

The notes to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk. Retaining sufficient liquidity and capital to withstand market pressures remains central to the Group's strategy.

Taking the above factors into consideration, the Directors believe it is reasonable to assume that the Group will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

The impact of the economic and financial disruption due to the emergence of COVID 19 has been considered as part of the going concern analysis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in HK dollars, the currency of the primary economic environment in which the Group operates.

All currency amounts in the financial statements are rounded to the nearest thousand HK dollars.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than HK dollars are translated into HK dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than HK dollars are recorded at the rates prevailing at the dates of the transactions. All other translation differences are taken through the statement of profit or loss and comprehensive income. Exchange differences recognised in the statement of profit or loss and comprehensive income are presented in 'Other income'.

c. Financial instruments

i) Financial assets and financial liabilities at amortised cost

Financial assets at amortised cost include cash and short-term deposits, investment assets, loans and advances, and trade and other receivables.

Financial assets are recognised at amortised cost when the Group's business model objective is to collect the contractual cash flows of the assets and where these cash flows are solely payments of principal and interest ("SPPI") on the principal amount outstanding until maturity. Such assets are recognised when the Group becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less expected credit loss ("ECL") allowance. Interest is recognised in the statement of profit or loss and comprehensive income in 'Interest income', using the effective interest rate ("EIR") method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the statement of profit or loss and comprehensive income in 'Net impairment loss on financial instruments'.

Financial liabilities classified at amortised cost include deposits from customers, accruals and other payables and deposits from related parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Financial instruments (Continued)

i) Financial assets and financial liabilities at amortised cost (Continued)

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at fair value through profit or loss ("FVPL"). They are recognised when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of profit or loss and comprehensive income in 'Interest expense' using the EIR method as described below. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

The EIR method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to the carrying amount of the financial instrument. The EIR is established on initial recognition of the financial instrument. The calculation of the EIR includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the EIR.

d. Fair value

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Group believes market participants would use in pricing the asset or liability at the measurement date.

Where the Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Group uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Group. Unobservable inputs are inputs that reflect assumptions the Group believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Fair value (Continued)

Fair value measurement (Continued)

The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

- Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities.

  Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments, block discounts and discounts for equity-specific restrictions that would not transfer to market participants are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 – Valuation techniques using observable inputs

  Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement.

Accordingly, the degree of judgement exercised by the Group in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Group considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

For assets and liabilities that are transferred between levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Derecognition of financial assets and liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

If the asset has been transferred, and the Group neither transfers nor retains substantially all of the risks and rewards of the asset, then the Group determines whether it has retained control of the asset.

If the Group has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

The renegotiation or modification of the contractual cash flows of a financial instrument can lead to derecognition where the modification is "substantial", determined by qualitative assessment of whether the revised contractual terms of a financial instrument, such as a loan, are significantly different from those of the original financial instrument. In the event that the qualitative assessment is unclear, a quantitative 10% cash flow test is performed.

Where modifications do not result in derecognition of the financial instrument, the gross carrying amount of the financial instrument is recalculated and a modification gain/(loss) is recognised in the statement of profit or loss and comprehensive income.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received, together with the transfer of any cumulative gain/loss previously recognised in equity, are recognised in the statement of profit or loss and comprehensive income.

The Group derecognises financial liabilities when the Group's obligations are discharged or cancelled or when they expire.

f. Impairment of financial instruments

The Group recognises loss allowances for ECL for financial assets measured at amortised cost.

Measurement of ECL

For financial assets, ECL are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset's EIR.

Where a financial asset is credit-impaired at the reporting date, the ECL is measured as the difference between the asset's gross carrying amount and the present value of future cash flows, discounted at the original EIR.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Impairment of financial instruments (Continued)

Measurement of ECL (Continued)

The Group applies a three stage approach to measuring ECL based on the change in credit risk since initial recognition:

- Stage 1: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition then the loss allowance is calculated as the lifetime cash shortfalls that will result if a default occurs in the next 12 months, weighted by the probability of that default occurring.

- Stage 2: if there has been a significant increase in credit risk ("SICR") since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

- Stage 3: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired (see below for definition of credit-impaired), the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

Assessment of significant increase in credit risk

When assessing SICR, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information.

The probability of default ("PD") is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted. Credit risk is considered to have increased significantly if the PD has significantly increased at the reporting date relative to the PD of the facility, at the date of initial recognition. The assessment of whether a change in PD is "significant" is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty. In addition, as a backstop, the Group considers that SICR has occurred in all cases when an asset is more than 30 days past due.

In general, ECL are measured so that they reflect:

- A probability-weighted range of possible outcomes
- The time value of money; and
- Relevant information relating to past, current and future economic conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Impairment of financial instruments (Continued)

Calculation of ECL

ECL are calculated using three main components:

- Probability of default ("PD"): for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- Expected loss given default ("LGD"): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Estimated exposure at default ("EAD"): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data and country risk expert judgement. The macro-economic scenarios are reviewed quarterly.

The 12 month ECL is equal to the sum over the next 12 months of quarterly PD multiplied by LGD and EAD, with such expected losses being discounted at the EIR. Lifetime ECL is calculated using the discounted present value of total quarterly PDs multiplied by LGD and EAD, over the full remaining life of the facility.

When measuring ECL, the Group considers multiple scenarios, except where practical expedients are used to determine ECL. Practical expedients are used where they are consistent with the principles described above.

The Group measures ECL on an individual asset basis and has no purchased or originated credit-impaired ("POCI") financial assets.

More information on measurement of ECL is provided in note 25.

Presentation of ECL

ECL is recognised in the statement of profit or loss and comprehensive income within 'Expected Credit Loss'. ECL on financial assets measured at amortised cost are presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position. Where the financial asset is measured at FVOCI, the loss allowance is recognised as an accumulated impairment amount in other comprehensive income and does not reduce the carrying amount of the financial asset on the statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Impairment of financial instruments (Continued)

Credit-impaired financial instruments

In assessing the impairment of financial instruments under the ECL model, the Group defines credit-impaired financial instruments in accordance with the Credit Risk Management Department's policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Group will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the agreement.

Definition of Default

In assessing the impairment of financial instruments under the ECL model, the Group defines default in accordance with Credit Risk Management Department's policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the Group in full and takes into account qualitative indicators. The definition of default also includes a presumption that a financial asset which is more than 90 days past due ("DPD") has defaulted.

Write-offs

Loans and government debt securities are written off (either partially or in full) when they are deemed uncollectible which generally occurs when all commercially reasonable means of recovering the balance have been exhausted. Such determination is based on an indication that the borrower can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay the balance.

Partial write-offs are made when a portion of the balance is uncollectable. However, financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is reflected directly in the statement of profit or loss and comprehensive income within 'Net impairment loss on financial instruments' and is not recognised in the loss allowance account. Any subsequent recoveries are credited to 'Net impairment loss on financial instruments' within the statement of profit or loss and comprehensive income.

g. Revenue recognition

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

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of profit or loss and comprehensive income as interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Fees and commission expense

Fees and commission expense in the statement of profit or loss and comprehensive income include service fees. Service fee generally consists of transaction fees and monthly maintenance fees for products and services provided to the Group. Amounts are recognised as the related services are received.

i. Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with banks and other financial institutions, and money market placements which are readily convertible to known amount of cash and are subject to an insignificant risk of changes in value.

j. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 group 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 or revalued amounts, net of their residual values, over their estimated useful lives as follows:

- Office equipment — 2-5 years
- Furniture & Fixtures — 5 years
- Computer equipment — 3 years
- Leasehold improvements — Shorter of their useful lives and the lease term

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, please refer to note 2 for impairment treatment.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Leases

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 Group.

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 Group under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, 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 Group:

- 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 Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Leases (Continued)

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. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets 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. Low-value assets comprise IT equipment and small items of office furniture.

The Group has adopted Amendment to HKFRS 16 – Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b. any reduction in lease payments affects only payments due on or before 30 June 2021; and c. there is no substantive change to other terms and conditions of the lease.

l. Intangible assets

Software

Expenditure on maintaining computer software is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Bank has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Software 3-5 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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 other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

n. Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period'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.

Current income tax

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

Deferred income tax

Deferred 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 consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also 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 and does give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

p. Other payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

q. Share capital

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

4. SIGNIFICANT ACCOUNTING ESTIMATES

Estimate and judgement 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to 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 discussed below.

Current and deferred income tax

The Bank is subject to income tax in Hong Kong. Judgement is required in determining the provision for income tax. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

The deferred tax assets relate to carried-forward tax losses of the subsidiary. The subsidiary has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Group. The subsidiary is expected to generate taxable income from 2021 onwards. The related tax losses can be carried forward until 2025.

Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in offices leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

4. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on past history and 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 the tables in note 25.

5. NET INTEREST (EXPENSE)/INCOME

The table below presents interest income and expense by accounting classification. Interest income and expense is calculated using the effective interest method for financial assets and financial liabilities measured at amortised cost.

	2021 HK$'000	2020 HK$'000
Interest income		
Placements with and advances to banks	9,533	2,418
Financial assets measured at amortised cost	580	427
Loans and advances	524	–
	10,637	2,845
Interest expense		
Deposits from customers	24,689	427
Lease liabilities	129	231
Deposits from related parties	827	–
	25,645	658
Net interest (expense)/income	(15,008)	2,187

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income' and foreign exchange differences disclosed in 'Other income' (note 7).

No other gains or losses have been recognised in respect of financial liabilities measured at amortised cost other than as disclosed as 'Interest expense', and foreign exchange differences disclosed in 'Other income' (note 7).

6. NET FEE AND COMMISSION EXPENSES

	2021 HK$'000	2020 HK$'000
Fee income	2	–
Bank charges	(1,450)	(359)
Other fees	(2,476)	(150)
	(3,926)	(509)
Net Fee and Commissions Expense	(3,924)	(509)

Other fees consists of transaction fees and monthly subscription fees charged by Central Moneymarkets Unit.

7. OTHER INCOME

	2021 HK$'000	2020 HK$'000
Net foreign exchange gains	3,573	1,103

8. OPERATING EXPENSES

	2021 HK$'000	2020 HK$'000
Staff costs	208,999	162,636
Directors' remuneration		
Fees	2,190	2,698
Others	–	–
Depreciation of property, plant and equipment	28,628	16,186
Depreciation of right-of-use assets	10,544	6,827
Amortisation of intangible assets	13,767	9,220
Auditors' remuneration	1,855	1,600
Legal and professional fees	11,988	22,035
IT expenses	54,516	13,737
Premise expenses	5,157	4,745
Recruitment fee	9,234	10,774
Advertising and marketing expense	51,804	20,631
Others	21,057	13,928
Total	419,739	285,017

8. OPERATING EXPENSES (Continued)

No retirement benefits were paid to director in connection with the management of the affairs of the company or its subsidiary undertaking (2020: Nil). As seven of the ten directors (2020: six of the nine directors) of the Bank are remunerated by the shareholders or their subsidiaries for their services to the group during the reporting period, the amount consists of remuneration for the ten (2020: nine) directors' services to the group unapportioned. For the years ended 31 December 2021 and 31 December 2020, the Group had not paid any (a) payments or benefits in respect of the termination of the service of directors whether in the capacity of directors or in any other capacity while being a director of the Group, and (b) consideration provided to or receivable by any third party for making available the services of a person as a director or in any other capacity while being a director of the Group. During the year, the Group had not granted any loans, quasi-loans nor entered into any other dealings in favor of (a) the Directors, (b) entities controlled by the Directors; or (c) entities connected with the Directors.

9. INCOME TAX

Income tax expense is recognised based on management's best knowledge of the income tax rates expected for the financial year.

a. Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2021 and 2020.

b. PRC Corporate Income Tax ("PRC CIT")

PRC CIT has been provided for at applicable tax rates under the relevant regulations of the PRC after considering the available preferential tax benefits from refunds and allowances, and on the estimated assessable profit of entities within the Group established in the Mainland of China for the years ended 31 December 2021 and 2020. The general PRC CIT rate is 25% in 2021 and 2020.

The income tax expense of the Group is analysed as follows:

	2021 HK$'000	2020 HK$'000
Current income tax	–	–
Deferred income tax (note 20)	(1,883)	–
Total	(1,883)	–

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no estimated assessable profits for the year ended 31 December 2021 and 31 December 2020.

9. INCOME TAX (Continued)

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

	2021 HK$'000	2020 HK$'000
Loss before income tax	(436,676)	(282,610)
Calculated at a tax rate of 16.5% (2020: 16.5%)	(72,052)	(46,631)
Effects of different tax rates applicable to the subsidiary of the Group	263	–
Expenses not deductible for tax purpose	4,159	2,887
Previously unrecognized tax losses now recouped to reduce current tax expense	(2,665)	–
Tax losses not recognised	68,412	43,744
Income tax credit	(1,883)	–

The unused tax losses of HKD920,059,000 as at 31 December 2021 (2020: HKD508,574,000) were incurred by the Bank. They can be carried forward indefinitely.

10. SUBSIDIARY

The Bank's principal subsidiary at 31 December 2021 is set out below. Unless otherwise stated, the subsidiary's share capital consisting solely of ordinary shares that are held directly by the Bank, and the proportion of ownership interests held equals the voting rights held by the Bank. The country of incorporation or registration is also their principal place of business.

				Ownership interest held by the Bank		Ownership interest held by non-controlling interests	
Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	2021 %	2020 %	2021 %	2020 %
Shenzhen Fusion Information Technology Services Co. Ltd.	People's Republic of China, limited liability company	IT Services, People's Republic of China	Issued and paid, RMB10,000,000	100	100	-	-

Cash and short-term deposits held in China are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from China, other than through normal dividends. The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is HK$1,986,000 (2020 : HK$3,644,000).

11. BALANCES WITH CENTRAL BANK

	2021 HK$'000	2020 HK$'000
Balances with central bank	453,237	97,674
Less: expected credit losses	–	(3)
Total	453,237	97,671

12. PLACEMENTS WITH AND ADVANCES TO BANKS

	2021 HK$'000	2020 HK$'000
Balances with banks	79,195	55,447
Placements with and advances to banks maturing within one month	931,899	589,041
Placements with and advances to banks maturing after one month but less than one year	408,563	154,000
Less: expected credit losses	(32)	(370)
Total	1,419,625	798,118

13. INVESTMENT ASSETS AT AMORTISED COST

	2021 HK$'000	2020 HK$'000
Investment securities at amortised cost		
Debt securities:		
Exchange Fund Bills	1,449,725	10,000
Certificates of deposit	664,602	–
Bonds	119,922	–
Less: expected credit losses	(72)	(1)
	2,234,177	9,999
Type of issuer:		
Sovereign	1,449,703	9,999
Banks and other financial institutions	784,474	–
	2,234,177	9,999

14. LOANS AND ADVANCES

	2021 HK$'000	2020 HK$'000
Gross loans and advances to customers	154,085	–
Less: expected credit losses		
– Stage 1	(943)	–
– Stage 2	(904)	–
– Stage 3	–	–
	152,238	–

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

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

	2021 HK$'000	2020 HK$'000
Financial assets		
Financial assets at amortised cost		
Investment assets at amortised cost	2,234,177	9,999
Balances with central bank	453,237	97,671
Placements with and advances to banks	1,419,625	798,118
Loans and advances	152,238	–
Financial liabilities		
Financial liabilities at amortised cost		
Deposits from customers	3,049,320	324,944
Deposits from related parties	218,313	15,505
Lease liabilities	8,339	17,007

The carrying amounts of financial assets and financial liabilities approximate their fair values.

16. OTHER DEPOSITS AND RECEIVABLES

	2021 HK$'000	2020 HK$'000
Interest receivable	863	166
Rental and other deposits	7,490	6,578
Other amounts receivable	4,355	4,489
	12,708	11,233

17. LEASES

Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2021 HK$'000	2020 HK$'000
Right-of-use assets		
Buildings	7,741	15,111
Lease liabilities		
Current	7,850	10,586
Non-current	489	6,421
	8,339	17,007

Additions to the right-of-use assets during the 2021 financial year were HK$3,174,000 (2020: HK$5,174,000)

Amounts recognised in the statement of profit or loss and comprehensive income

The consolidated statement of profit or loss and comprehensive income shows the following amounts relating to leases:

	2021 HK$'000	2020 HK$'000
Depreciation charge of right-of-use assets		
Buildings	10,544	6,827
Interest expense (included in interest expense)	129	231
Expense related to short-term leases	–	1,932

The total cash outflow for leases in 2021 was HK$11,980,000 (2020: HK$5,837,000).

The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 2 to 3 years but may have extension options as described below.

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.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

18. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment HK$'000	Furniture and Fixtures HK$'000	Computer Equipment HK$'000	Leasehold Improvements HK$'000	Total HK$'000
At 1 January 2020					
Cost	1,051	114	1,822	17,779	20,766
Accumulated depreciation	(66)	(4)	(193)	–	(263)
Net book amount	985	110	1,629	17,779	20,503
Year ended 31 December 2020					
Opening net book amount	985	110	1,629	17,779	20,503
Additions	48,503	2,109	13,956	4,666	69,234
Disposals	(409)	(124)	–	–	(533)
Depreciation charges (note 8)	(4,840)	(396)	(3,042)	(7,908)	(16,186)
Closing net book amount	44,239	1,699	12,543	14,537	73,018
At 31 December 2020 & 1 January 2021					
Cost	49,053	2,073	15,778	22,445	89,349
Accumulated depreciation	(4,814)	(374)	(3,235)	(7,908)	(16,331)
Net book amount	44,239	1,699	12,543	14,537	73,018
Year ended 31 December 2021					
Opening net book amount	44,239	1,699	12,543	14,537	73,018
Additions	6,231	1,008	3,790	4,527	15,556
Disposals	(59)	–	(8)	–	(67)
Depreciation charges (note 8)	(11,089)	(541)	(4,967)	(12,031)	(28,628)
Foreign exchange effect	(1)	–	–	(6)	(7)
Closing net book amount	39,321	2,166	11,358	7,027	59,872
At 31 December 2021					
Cost	55,215	3,081	19,560	26,972	104,828
Accumulated depreciation	(15,894)	(915)	(8,202)	(19,945)	(44,956)
Net book amount	39,321	2,166	11,358	7,027	59,872

19. INTANGIBLE ASSETS

	Software HK$'000	Total HK$'000
At 1 January 2020		
Cost	13,268	13,268
Accumulated amortisation	–	–
Net book amount	13,268	13,268
Year ended 31 December 2020		
Opening net book amount	13,268	13,268
Additions	45,332	45,332
Amortisation charges (note 8)	(9,220)	(9,220)
Closing net book amount	49,380	49,380
At 31 December 2020		
Cost	58,600	58,600
Accumulated amortisation	(9,220)	(9,220)
Net book amount	49,380	49,380
Year ended 31 December 2021		
Opening net book amount	49,380	49,380
Additions	14,079	14,079
Amortisation charges (note 8)	(13,767)	(13,767)
Closing net book amount	49,692	49,692
At 31 December 2021		
Cost	72,679	72,679
Accumulated amortisation	(22,987)	(22,987)
Net book amount	49,692	49,692

20. DEFERRED INCOME TAXES

Deferred income taxes related to the group mainly arise from recognition of previous loss amounts. The movement in the deferred tax account is as follows:

	2021 HK$'000	2020 HK$'000
At 1 January	–	–
Amount recognised in the income statement	1,883	–
Foreign exchange effect	15	
At 31 December	1,898	–

21. DEPOSITS FROM CUSTOMERS

	2021 HK$'000	2020 HK$'000
Saving account balances	203,566	22,834
Term deposits	2,845,754	302,110
Total	3,049,320	324,944

22. ACCRUALS AND OTHER PAYABLES

	2021 HK$'000	2020 HK$'000
Staff compensation and benefits accruals	40,118	25,557
IT costs accruals	35,682	16,313
Accruals for fixed assets purchase	–	39,621
Accruals for intangible assets purchase	22,447	22,980
Interest payables	4,884	441
Other amounts payable	37,181	31,804
Total	140,312	136,716

23. SHARE CAPITAL

	Ordinary shares Number of shares	Share capital HK$'000
Issued and fully paid		
At 1 January 2020	1,000	500,001
Capital contribution by the member	–	500,000
At 31 December 2020 and 1 January 2021	1,000	1,000,001
Capital contribution by the member	–	850,000
At 31 December 2021	1,000	1,850,001

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 general meetings of the Group. All shares rank equally with regard to the Group's residual assets.

24. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	2021 HK$'000	2020 HK$'000
Balances with central bank	**453,237**	97,671
Cash at banks	**79,195**	55,443
Placement with banks	**947,472**	712,750
	1,479,904	865,864

24. ADDITIONAL CASH FLOW INFORMATION (Continued)

b. Reconciliation of cash flows from operating activities

	2021 HK$'000	2020 HK$'000
Loss for the year	(434,793)	(282,610)
Adjustments for:		
Interest income	(10,637)	(2,845)
Interest expense	25,645	658
Income tax	(1,883)	–
Depreciation expense	39,172	23,013
Amortisation expense	13,767	9,220
Loss on disposal of fixed assets	67	533
Changes in expected credit losses	1,854	76
Foreign exchange loss	(8)	–
Operating cash flows before changes in operating assets and liabilities	(366,816)	(251,955)
Changes in operating assets		
Increase in loans and advances	(154,085)	–
(Increase)/Decrease in prepaid expenses	(661)	14,760
Decrease in amount due from the immediate parent company	–	1
Increase in other deposits and receivables	(745)	(2,060)
Changes in operating liabilities		
Increase in deposits from customers	2,724,376	324,944
Increase in deposits from related parties	202,808	15,505
(Decrease)/Increase in accruals and other payables	(846)	34,396
Interest received	9,302	2,281
Interest paid	(21,065)	(4)
Net cash flows generated from operating activities	2,392,268	137,868

c. Non-cash investing activities

Non-cash investing activities disclosed in other note is:

– Acquisition of right-of-use assets – note 17

25. FINANCIAL RISK MANAGEMENT

Risk management procedures

The Group is committed to maintaining an appropriate balance between its risk exposures and the level of return it targets to achieve for the Group's sustainable profitability, financial soundness and viability. The Group established an Enterprise Risk Management Framework ("the Framework") and the framework sets out the risk management standard and value for the Group. 10 principle risks, which include credit, market, liquidity and interest rate, operational, cyber & tech security, reputational, legal, strategic, regulatory compliance and financial crime compliance risks, are identified in the Framework. This ensures the Group has a consistent approach to measure, monitor, control and mitigate the risks inherent in the business activities.

The Board has ultimate responsibility for the effective management of risk and approves the risk appetite. Three committees, include Risk Committee, Audit Committee, and Nomination and Remuneration Committee are established in compliance with governance codes and best practice to ensure due attention is given to assist the Board in discharge of its duties and responsibilities stipulated in the respective terms of reference. Risk Committee is responsible for oversight and advice the Board on high level risk related matters, such as risk appetite, risk limits and future risk strategy of the Group, and risk governance including risk culture-related matters.

Risk Appetite is one of the core components under risk management and is defined as the risks that the Group is willing to accept in achieving the medium and long-term strategic goals. The Group Risk Appetite Statement is approved by the Board with advisory from Risk Committee. The actual risk appetite report would also be monitored and reviewed through Risk Management Committee, one of the management committee in the Group, on monthly basis to ensure issue can be escalated to the senior management and the Board, and mitigating actions can be taken in a timely manner.

The Group adopts a three lines of defence ("LOD") approach to ensure effective risk management and to enable the Group to separate risk management activities among first LOD who owns the risk and is accountable for relevant risk control implementation; second LOD who oversees the first line, monitor risk management activities and supports controls; third LOD who provides assurance that the risk management process is effectively in place.

The Group also performs stress testing exercises regularly in order to evaluate the potential adverse impact on the Group's profitability and capital adequacy due to deterioration in economic condition and these exercises are also used to support business and capital planning.

Credit Risk

Credit risk refers to the risk of loss arising from failure to satisfy financial obligations of a borrower, counterparty, issuer, guarantor or any other forms of obligors. Currently, the Group incurs credit risk mainly from treasury activities (i.e. placements, investments and settlements).

Credit risk management

Overall credit risk of the Group is managed through a comprehensive risk management framework to ensure that risk level of credit portfolio is in line with the Group's risk appetite and cultivate a sound credit culture while regulatory requirements are fulfilled all the time.

The Group has established a set of policies and procedures to identify, measure, monitor and control credit risk at both portfolio level and individual level. These policies and procedures covers various areas including but not limited to governance structure, risk acceptance and tolerance level, credit risk strategy, exposure measurement and credit administration.

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Credit Initiation and Evaluation

A clear hierarchy of governance structure and mechanism has been established throughout the entire credit initiation and evaluation process. Specifically, upon receiving credit applications, each case would be evaluated based on pre-established criteria and all other relevant factors including but not limited to nature of transactions, types of obligors, financial conditions, credit ratings, market situations, industry dynamics and corporate governance of obligors. Each credit application is then handled in accordance with delegated approval authorities. Proper risk mitigation measures may also be introduced to protect the Group's interest.

Credit Monitoring and Control

A set of credit monitoring and control processes and procedures has been established to manage credit risk across the Group. Exposure limit is set across obligors, products and portfolio level to ensure that credit risk concentration is manageable while regulatory and internal requirements are fulfilled. Risk Management Department and applicable business units also closely monitor exposures and progress of execution of risk mitigation measures, as well as perform stress tests to identify, analyse and control credit risk concentrations arising from the Group's lending and treasury activities to assess the impact of market shock on the Group's credit portfolio and financial position.

Expected Credit Losses

The Group impairment requirements are based on a forward-looking ECL approach. This measurement of ECL should reflect: (i) a probability-weighted outcome, (ii) the time value of money and (iii) a reasonable and supportable information model. The Group is required to recognise an allowance for either 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk of the exposure since initial recognition.

Subject to classification and measurement, financial assets classified as amortised cost. At the time of reporting, the Group's financial assets that in scope of HKFRS 9 impairment are mainly debt securities and interbank exposures.

Expected credit loss is determined under three stages:

- Stage 1 applies when there is no significant increase in credit risk since initial recognition. 12-month ECL is required for assets classified in stage 1.
- Stage 2 applies when a significant increase in credit risk has occurred on an individual or collective basis since initial recognition, with no objective evidence of credit event. Lifetime ECL calculation is required for assets classified in stage 2.
- Stage 3 applies when there is objective evidence of credit impairment. Lifetime ECL calculation is required for assets classified in stage 3.

Significant credit deterioration criteria are used for assessing whether there are significant increases in credit risk of the exposures and thus classify them into different stages. The criteria are primarily set based on the key requirements stipulated under HKFRS 9, such as 30 days past due, low credit risk threshold, change of risk of default, etc.

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Expected Credit Losses (Continued)

ECL is calculated as a function of PD, LGD, EAD, expected life and discount factor.

- PD: Probability of an obligor or facility to be defaulted within a specific period of time
- LGD: Loss as a percentage of EAD given the obligor or facility has defaulted
- EAD: predicted outstanding balance and accrued interests as at the point of default
- Expected life: contractual period during which exposed to credit risk
- Discount factor: effective interest rate

The above methodology for expected loss estimation should incorporate historical information, current conditions, as well as forward-looking information. Therefore, obtaining macroeconomic factor ("MEF") projections is critical to estimate the forward-looking element in ECL estimation. The Group formed a standard framework to project economic scenarios including Base, Good and Bad scenarios to reflect assumptions about future economic conditions. Key macroeconomic variables in Hong Kong, China and United States are considered, including GDP, unemployment rate, interest rate, import and export, inflation, etc. The final macroeconomic response models depending on the best correlation between the PD/LGD and the MEFs are selected to project the forward-looking element for the ECL.

Exposure to Credit Risk

The maximum exposure to credit risk ("gross credit exposure") of the Group as at 31 December 2021 and 31 December 2020 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that the Group could have to pay in relation to unrecognised financial instruments, which the Group believes are subject to credit risk. The table includes financial instruments subject to ECL and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. Exposure arising from financial instruments not recognised on the statement of financial position is measured as the maximum amount that the Group could have to pay, which may be significantly greater than the amount that would be recognised as a liability.

	31 December 2021			
Class	Stage 1 12-months ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total carrying amount HK$'000
Subject to ECL:				
Cash and short-term deposits	1,872,894	–	–	1,872,894
Investment securities	2,234,249	–	–	2,234,249
Loans and advances	151,377	2,708	–	154,085

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Exposure to Credit Risk (Continued)

Class	31 December 2020 Stage 1 12-months ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total carrying amount HK$'000
Subject to ECL:				
Cash and short-term deposits	896,162	–	–	896,162
Investment securities	10,000	–	–	10,000
Loans and advances	–	–	–	–

Where the Group enters into credit enhancements, including receiving cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

Exposure to credit risk by class

Class	31 December 2021			31 December 2020		
	Net credit exposure HK$'000	Credit enhancements HK$'000	Adjusted credit exposure HK$'000	Net credit exposure HK$'000	Credit enhancements HK$'000	Adjusted credit Exposure HK$'000
Subject to ECL:						
Cash and short-term deposits	1,872,862	–	1,872,862	895,789	–	895,789
Investment securities	2,234,177	–	2,234,177	9,999	–	9,999
Loans and advances	152,238	–	152,238	–	–	–

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Credit Quality

Exposure to credit risk by internal rating grades

Internal credit ratings, as below, are derived using methodologies generally consistent with those used by external agencies:

Investment grade: AAA – BBB

Non-investment grade: BB – CCC

Default: D

The table below shows gross carrying amount and, in the case of unrecognised financial instruments, nominal amounts by internal rating grade.

At 31 December 2021 in HK$'000	AA	A	BBB	Total Investment Grade	Non-Investment Grade	Unrated/ Default	Total Gross Carrying Amount	ECL Allowance	Total Carrying Amount
Subject to ECL:									
Cash and short term deposits	672,468	602,204	419,386	1,694,058	178,836	–	1,872,894	(32)	1,872,862
Investment securities	1,549,551	564,692	120,006	2,234,249	–	–	2,234,249	(72)	2,234,177
Loans and advances	–	–	–	–	–	154,085	154,085	(1,847)	152,238
Total Subject to ECL	2,222,019	1,166,896	539,392	3,928,307	178,836	154,085	4,261,228	(1,951)	4,259,277
Not Subject to ECL:									
Other deposits and receivables	26	94	301	421	290	11,997	12,708	–	12,708

At 31 December 2020 in HK$'000	AA	A	BBB	Total Investment Grade	Non-Investment Grade	Unrated/ Default	Total Gross Carrying Amount	ECL Allowance	Total Carrying Amount
Subject to ECL:									
Cash and short term deposits	104,256	354,086	344,000	802,342	93,820	–	896,162	(373)	895,789
Investment securities	10,000	–	–	10,000	–	–	10,000	(1)	9,999
Total Subject to ECL	114,256	354,086	344,000	812,342	93,820	–	906,162	(374)	905,788
Not Subject to ECL:									
Other deposits and receivables	89	132	22	243	12	10,978	11,233	–	11,233

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Expected credit loss allowance

Financial instruments subject to the impairment requirements of HKFRS 9

There have been no changes made to estimation techniques or significant assumptions for estimating impairment during the year. There were no modifications to financial assets during the year or since origination and therefore modifications have not impacted ECL staging.

ECL on cash and short-term deposits, investment securities, and other receivables is de minimis owing to their short term tenure.

Liquidity Risk

Liquidity risk refers to the risk that the Group is not able to honour its financial obligations when they fall due at a reasonable cost. This may be caused by market disruption or difficulty in liquidating assets. The primary objective of liquidity risk management is to maintain stable, reliable and adequate source of funding to meet liquidity needs under both normal and stressed conditions.

The Group has established liquidity risk management policy that outlines the liquidity risk management framework according to the liquidity risk appetite defined by the Board of Director ("the Board") and to comply with the regulatory requirements including but not limited to HKMA's Supervisory Policy Manuals ("SPM") "LM-1 Regulatory Framework for Supervision of Liquidity Risk" and "LM-2 Sound Systems and Controls for Liquidity Risk Management". The liquidity risk management framework is to ensure that adequate liquidity is maintained at all times.

In accordance with the Group's corporate governance principles, the Board is ultimately responsible for overseeing the liquidity and funding risk in the Group. Risk Committee ("RC") under the Board provides an independent oversight and guidance to the Board on liquidity risk issues. Under leadership of Chief Executive ("CE"), Executive Committee ("EXCO") is a senior management committee for formulating and recommending the Board and RC to approve the liquidity risk management principles, policies and frameworks.

As authorised by EXCO, Asset and Liability Committee ("ALCO") is the primary committee in managing the liquidity and funding profile in the Group. Under the guidance of ALCO, Treasury is primary responsible for the overall liquidity management for the Group on a day-to-day basis. Risk Management Department ("RMD") coordinates with Treasury and other business units to help ensure a consistent and comprehensive framework for managing liquidity risk across the Group.

In accordance with the Banking (Liquidity) Rules and SPM, the Group has set up internal limits and triggers on the liquidity maintenance ratio ("LMR") which is well above the statutory requirements. On top of the regulatory LMR requirements, the cash flow maturity mismatch, the Group minimises the cash flow maturity mismatch by establishing limits on Maximum Cumulative Outflow ("MCO") indicator, which predicts the future 30 days maximum cumulative net cash outflow under normal situation. The Group also runs liquidity stress test on regular basis under institution specific, general market crisis and combined crisis scenarios. Under both normal and stress conditions, the Group maintains certain level of liquidity assets such as HK Exchange fund Bills to cover the projected cash outflows within pre-defined time horizon.

25. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

The Group strives to develop a diversified and stable funding base with access to funding sources across retail and wholesale channels. To avoid over reliance of a particular funding source, the Group imposes funding concentration control measures such as establishing management action triggers for non-bank deposit ratio, single top depositor ratio and top 10 depositors ratio.

The Group has formulated a Contingency Funding Plan ("CFP") for dealing with a liquidity crisis and detailing the operating procedures for making up funding shortfall under emergency situation. CFP sets out the readily deployable funding sources, funding measures, potential steps to meet intraday critical payment, operational procedures and the estimated time of assets disposal for cash. The plan is updated and reviewed at least annually by the ALCO to ensure that it remains robust upon changing business and market conditions.

Maturity analysis

In the following maturity analysis, financial liabilities are presented at fair value. All other amounts represent undiscounted cash flows payable by the Group arising from its financial liabilities to earliest contractual maturities as at 31 December 2021 and 31 December 2020. Repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Group to appropriately reflect the liquidity risk arising from those financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Group.

31 December 2021	On Demand HK$'000	Not more than 1 month HK$'000	More than 1 month but not more than 3 months HK$'000	More than 3 months but not more than 1 year HK$'000	More than 1 year but not more than 5 years HK$'000	Total HK$'000
Financial liabilities						
Deposits from customers	289,356	695,700	2,040,082	24,182	–	3,049,320
Deposits from related parties	–	46,781	171,532	–	–	218,313
Lease liabilities	–	1,234	2,579	4,037	489	8,339
Accruals and other payables	–	140,312	–	–	–	140,312
Total financial liabilities	289,356	884,027	2,214,193	28,219	489	3,416,284

31 December 2020	On Demand HK$'000	Not more than 1 month HK$'000	More than 1 month but not more than 3 months HK$'000	More than 3 months but not more than 1 year HK$'000	More than 1 year but not more than 5 years HK$'000	Total HK$'000
Financial liabilities						
Deposits from customers	23,566	298,901	80	2,397	–	324,944
Deposits from a related party	–	15,505	–	–	–	15,505
Lease liabilities	–	844	1,849	7,893	6,421	17,007
Accruals and other payables	–	136,716	–	–	–	136,716
Total financial liabilities	23,566	451,966	1,929	10,290	6,421	494,172

25. FINANCIAL RISK MANAGEMENT (Continued)

Market Risk

Market risk is defined as the risk of loss to the Group resulting from the movements in observable market prices and rates (such as interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices) and indirectly observable market parameters (such as volatilities and correlations). Currently the market risk predominantly arises from the Group's treasury activities and trading activities.

The Group has established market risk management policy that outlines the market risk management framework according to the market risk appetite defined by the Board. The market risk management framework is to ensure that the market risk is identified, measured, monitored and reported on a timely basis.

In accordance with the Group's corporate governance principles, the Board is ultimately responsible for overseeing the market risk in the Group. RC under the Board provides an independent oversight and guidance to the Board on market risk issues. Under leadership of CE, EXCO is a senior management committee for formulating and recommending the Board and RC to approve the market risk management principles, policies and frameworks.

As authorised by EXCO, Risk Management Committee ("RMC") is the primary committee in managing the market risk profile in the Group. Business units such as Treasury and Global Market are responsible for carrying out market risk activities and first line of defence in market risk management. RMD acts as an independent party to perform second line of defence in market risk management.

The Group monitors the market risk exposures against various types of limit on aggregate or individual unit levels. The limits include Value-at-Risk ("VaR"), stress testing and position limit (e.g. net open position). The VaR limit is set up and reviewed by RC under the Board according to the overall risk appetite of the Group, while the other key limits are set up and reviewed by RMC or CE authority. The risk methodology for VaR and stress testing is properly maintained and reviewed by RMC.

Currency risk

The Group is exposed to foreign exchange risk as the Group's assets and liabilities are denominated in foreign currencies such as United States Dollar ("USD") and Renminbi ("RMB"). To ensure the foreign currency risk exposure of the Group is kept to an acceptable level, risk limits are used to serve as a monitoring tool.

The Group's exposures to foreign exchange risk were as follows:

	2021				2020			
			Sensitivity to applied percentage change in currency (+/-)				Sensitivity to applied percentage change in currency (+/-)	
	Foreign currency exposure HK$'000	Percentage change applied	Profit or loss HK$'000	Other comprehensive income HK$'000	Foreign currency exposure HK$'000	Percentage change applied	Profit or loss HK$'000	Other comprehensive income HK$'000
US Dollar	5,645	1%	56	–	36,377	1%	364	–
Yuan Renminbi	122,431	9%	11,019	–	41,794	4%	1,672	–
	128,076				78,171			

25. FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

The reasonably possible percentage change in the currency rate in relation to HK dollars has been calculated based on the greatest annual percentage change over the 2-year period from 1 January 2020 to 31 December 2021 (2020: from 1 January 2019 to 31 December 2020). Thus, the percentage change applied may not be the same percentage as the actual change in the currency rate for the year ended 31 December 2021, or for the year ended 31 December 2020.

Interest rate risk

Interest Rate Risk in Banking Book ("IRRBB") refers to the risk to both the earnings and the economic value of the Group arising from adverse movements in interest rates that affects the banking book positions of the Group. The Group's interest rate exposures in the banking book may arise from deposit-taking, lending and treasury activities. The major types of interest rate risk could broadly divided into gap risk, basis risk and option risk.

The Group has established interest rate risk in banking book policy that outlines the interest risk management framework in banking book according to the IRRBB risk appetite defined by the Board and to comply with the regulatory requirements including but not limited to HKMA's SPM "IR-1 Interest Rate Risk in the Banking Book". The IRRBB management framework is to ensure that the Group is not taking excessive IRRBB exposures which can pose a significant threat to the Group's earnings and capital adequacy.

In accordance with the Group's corporate governance principles, the Board is ultimately responsible for overseeing the IRRBB in the Group. RC under the Board provides an independent oversight and guidance to the Board on IRRBB issues. Under leadership of CE, EXCO is a senior management committee for formulating and recommending the Board and RC to approve the IRRBB risk management principles, policies and frameworks.

As authorised by EXCO, ALCO is the primary committee in managing the IRRBB profile in the Group. Under the guidance of ALCO, Treasury is primary responsible for managing overall IRRBB exposures for the Group on a day-to-day basis. RMD coordinates with Treasury and other business units to help ensure a consistent and comprehensive framework for managing IRRBB exposures across the Group.

The Group measures and monitors IRRBB exposures from both the earnings and economic value perspective with two key risk control metrics, namely EVE decline and NII sensitivity. The two metrics are calculated in accordance with the standardised framework as set out in the HKMA SPM IR-1. The risk limits and triggers are setup based on these two measurement metrics.

To supplement with EVE decline and NII sensitivity, the Group has setup interest rate sensitivity limits using the Present Value of a Basis Point ("PVBP"). The PVBP measures the sensitivity of the net present value of banking book towards movements of interest rate by one basis point. The key IRRBB risk metrics are reported to different committees such as ALCO and RC on a periodic basis.

The application of a parallel shift in market interest rates of 100 basis points increase or decrease to these positions, would result in a net gain or loss of approximately HK$7,779,000 (2020: HK$5,571,000).

26. OPERATIONAL RISK

Operational Risk refers to the potential for loss of the Group as a result from inadequate or failure in the control design, processes, systems, human operation, or caused by external events or changes in external environment. Operational risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management.

The Group establishes an Enterprise Risk Management Framework ("ERM Framework") to set out the over-arching integrated risk management structure. It documents the risk management process, articulating the Principal Risks and Key Risks with the use of Frameworks and outlining the governance structure. An Operational Risk Management Policy is established to stipulate the risk management responsibilities including risk identification, risk measurement, risk monitoring, and risk reporting. It defines the mechanism in respect of the various tools for Operational Risk Management. It also clarifies and reinforces the need for clear ownership and accountability for all processes across the Group.

In addition, the Group established Operational Risk Team as the subject matter experts on Operational Risk area. Such team is responsible for designing relevant risk policies and define relevant tools, assessment matrix & methodology and mechanism and present the latest Operational Risk exposure to the Chief Risk Officer and relevant risk management committees to facilitate the management team's oversight of the Group's Operational Risk profile.

Each new product or service initiative is subject to a risk review and signoff process, where relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service. Variations of existing products or services and outsourcing initiatives are also subject to a similar process.

Technology risk is managed through an enterprise technology risk management approach. This covers risk governance, identification, analysing, responding, monitoring and reporting, and is supported by a set of technology policies and standards, control processes and risk mitigation programmes. These policies and standards are established to manage and address cyber security risk. To enhance the management of this risk, we have appointed a Chief Information Security Officer who is responsible for our cyber security risk management strategy and programme.

Business Continuity Management Policy is established to set out the strategic approach of the Group to business continuity management, covering business risk assessments, recovery strategy, its related governance structure, roles and responsibilities of various parties. It refers to the advance planning and preparations which are necessary to identify the impact of potential losses arising from an emergency or a disaster, formulate and implement viable recovery strategies and to develop recovery plans which ensure continuity of the Group's service.

27. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value due to the short term nature of these assets and liabilities.

28. CAPITAL MANAGEMENT

The Group actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses.

The Group also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for our shareholders.

In order to maintain or adjust the capital structure as described above, the Group may adjust the amount of dividends paid, return capital to shareholder, issue new shares, issue subordinated debt or sell assets to reduce debt.

The Bank is regulated by the HKMA and as such is subject to minimum capital requirements. The Bank's capital is monitored on an ongoing basis to ensure compliance with these requirements. At a minimum, the Bank must ensure that capital is greater than the capital requirement covering credit, market and operational risk.

The Bank complied with all of its regulatory capital requirements during the current and prior year.

The Bank manages the following items as capital:

	2021 HK$'000	2020 HK$'000
Share capital	1,850,001	1,000,001
Accumulated losses	(859,688)	(424,895)
	990,313	575,106

29. RELATED PARTY DISCLOSURES

Key management personnel compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key management personnel include the executive-level managers and directors of the Bank.

Compensation paid to key management personnel in respect of their services rendered to the Bank, comprised the following:

	2021 HK$'000	2020 HK$'000
Short-term employee benefits	27,045	28,320
Post-employment benefits	–	–
Total	27,045	28,320

Transactions with related parties

Term deposit

The Group received deposit from a fellow subsidiary of Tencent Group in the form of term deposit. The deposit is made with a three month maturity at 0.55% interest rate (2020: one month maturity at 0.15% interest rate). The Group also received two deposits from another related party with three month maturity at 0.55% and 0.4% interest rate (2020: nil).

	2021		2020	
	Interest HK$'000	Balance HK$'000	Interest HK$'000	Balance HK$'000
Deposits from a fellow subsidiary	773	155,938	–	15,505
Deposits from a related party	54	62,375	–	–

29. RELATED PARTY DISCLOSURES (Continued)

Transactions with related parties (Continued)

Infrastructure services and other fees

The following transactions occurred with related parties:

	2021 HK$'000	2020 HK$'000
Leased line fees paid to a fellow subsidiary	–	465
IT Services paid to a fellow subsidiary	27,308	11,476
IT Services charged from a fellow subsidiary	–	(15,555)
Other fees recharged by Tencent Group	1,517	–
Total	28,825	(3,614)

Other fees recharged by Tencent Group represents fees paid by Tencent Group on behalf of the Group and charged back in 2021.

During the year, Tencent Technology (Shenzhen) Limited, a fellow subsidiary of Tencent Group, has provided the IT resources to the Group with no consideration needed to pay by the Group.

Property, plant and equipment and Intangible asset purchases

The following property, plant and equipment and intangible assets were purchased from related parties:

	2021 HK$'000	2020 HK$'000
Property, plant and equipment		
Tencent cloud infrastructure	435	39,621
Intangible asset		
Youtu software	–	2,082
Total	435	41,703

30. SUBSEQUENT EVENT

In view of the coronavirus outbreak after the end of 2021, the Bank has assessed that there is no material impact to the business in both HK and PRC operations.

31. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

(a) Statement of financial position

	2021 HK$'000	2020 HK$'000
ASSETS		
Balances with central bank	453,237	97,671
Placements with and advances to banks	1,417,639	794,474
Investment assets at amortised cost	2,234,177	9,999
Loans and advances	152,238	–
Prepaid expenses	15,356	14,748
Other deposits and receivables	12,369	11,233
Investment in subsidiary	11,684	8,687
Right-of-use assets	5,349	12,060
Property, plant and equipment	56,028	73,018
Intangible assets	49,692	49,380
Total Assets	4,407,769	1,071,270
LIABILITIES AND EQUITY		
Liabilities		
Deposits from customers	3,049,320	324,944
Deposits from related parties	218,313	15,505
Accruals and other payables	138,799	131,605
Lease liabilities	5,709	13,823
Total Liabilities	3,412,141	485,877
EQUITY		
Share capital	1,850,001	1,000,001
Accumulated losses	(854,373)	(414,608)
Equity attributable to owners of the bank	995,628	585,393
TOTAL EQUITY	995,628	585,393
TOTAL LIABILITIES AND EQUITY	4,407,769	1,071,270

The statement of financial position of the Bank was approved by the Board of Directors and authorised for issue on 27 April 2022:

Signed on behalf of the Board

ZHOU, MING
DIRECTOR

SUM, CHI HO
DIRECTOR

31. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (Continued)

(b) Reserve movement of the bank

	Accumulated losses HK$'000
At 1 January 2020	(142,285)
Loss for the year	(272,323)
At 31 December 2020 and 1 January 2021	(414,608)
Loss for the year	(439,765)
At 31 December 2021	(854,373)