富融銀行有限公司

Fusion Bank Limited

(Incorporated in Hong Kong with limited liability)

REPORT OF DIRECTORS

AUDITED CONSOLIDATED FINANCIALS STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2022

CONTENTS

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 2022.

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

Since the launch, Fusion Bank has been fully utilizing the competitive edges of Tencent's prosperous ecosystem, which has led the ongoing development of a diversified business portfolio, and the expansion of our banking services to a variety of daily life scenarios. This was evident in an extraordinary performance in a number of key business fields. By embracing the spirit of 'Technology for good', we continued to grow with the unique strengths of a virtual bank comprising versatilities and fintech capabilities, offering our customers a remarkable virtual banking experience.

A strategic investment by Tencent Holdings, Fusion Bank is the first virtual bank to partner with WeChat Pay HK (WPHK), customers can connect their WPHK account to spend locally within an extensive payment network. Throughout the year, we worked closely with WPHK again to support the Government's Consumption Voucher Scheme, offering a range of promotions and reward programmes, which helped us promote our strength in technology, driving the number of customers to increase by more than 100%. During the year, customers binding their account with WPHK increased by 115% compared to the previous year, making Fusion Bank the No.1 bank with the highest number of WPHK account binding via Faster Payment System (FPS).

The year 2022 has seen strong progress in our loan business, we continued to lead the development of local green financing, with our flagship "Tesla Exclusive Loan" pushing a significant growth in our electric car loan business. Based on that foundation, we partnered with various electric car brands to launch a collateral-free green electric car loan, and successfully signed an exclusive partnership agreement with JC Motor Limited, the exclusive distributor of BYD electric cars in Hong Kong, setting a solid ground for our long term vision of building a "Car owner's ecosystem". Meanwhile, the promotion during tax seasons further reinforced the strength of our loan product: easy application, speedy approval, and highly flexible for drawdown and repay. Both the electric car loan and special loan promotion during tax seasons contributed to a remarkable business growth in the fourth quarter, resulting in an increase of nearly 6 times in our overall loan business compared to the previous year.

By the end of 2022, our deposit size continued to show a steady growth, ranking among the top virtual banks in terms of deposit size, which also provided us with a stable source of funds for asset allocation. Against the backdrop of a rising interest-rate environment, our loan/deposit ratio still managed to rocket from a single digit in 2021 to almost 30% in 2022, while we achieved net positive interest income in the third quarter.

Thanks to the support from our customers, colleagues, and the synergies co-created between our partners, Fusion Bank successfully took home multiple awards from various fields, including the "Best FinTech Brand- Cross-boarder Virtual Banking Service" in "EDigest Brand Awards 2022", "No. 1 Virtual Banking Services Award" in "Headline No.1 Awards 2022", and the "GBA Best Bank" in "The 3rd Leading 9+2 GBA Awards". These awards reflected the industry's affirmation on our colleagues, products, and business expansion, which will continue to support us to refine our products and services, living to our promise of financial inclusion that benefits all.

Lastly, we are delighted to be granted Licences Type 1 (dealing in securities) and Type 4 (advising on securities) from the Hong Kong Securities and Futures Commission (SFC), and will be launching the Wealth Management business this year. The tightened partnership with Tesla and BYD also helped us continue expanding the car ownership business. Looking forward to 2023, we will continue to push for an even more diversified business portfolio, with a range of new products and services scheduled to be launched, including Wealth Management, Business Banking, and Debit Card. We will also strengthen our strategic partnership with WeChat Pay HK, unlocking the true potential as a virtual bank and as a strategic Investment by Tencent Holdings, opening up more possibilities for our customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 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 3 October 2022 from its shareholder amounting HK$150,000,000.

DIRECTORS

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

Executive directors:
ZHOU Ming
SUM, Chi Ho

Non-executive directors:
LAI, Chi Ming Jimmy – Chairman
CHENG, Yun Ming Matthew
GU, Xuan
BAO, Haijie

Independent non-executive directors:
XIAO, Suining
CHAN, Sheung Wai Charles
MA, Chi Kong Karl (resigned on 30 June 2022)
FOK, Kai Kong Kenneth (appointed on 22 September 2022)

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
21 April 2023

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 55, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- 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 2022, 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, 21 April 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

Year Ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Interest income		56,054	10,637
Interest expense		(48,882)	(25,645)
Net interest income/(expense)	*5*	7,172	(15,008)
Net fee and commission expenses	*6*	(8,713)	(3,924)
Other income	*7*	1,143	3,573
Operating expenses	*8*	(524,887)	(419,739)
Operating losses before impairment losses		(525,285)	(435,098)
Expected credit losses		(7,404)	(1,578)
Loss before income tax		(532,689)	(436,676)
Income tax	*9*	(184)	1,883
Loss after income tax		(532,873)	(434,793)
Other comprehensive loss			
Item that maybe reclassified subsequently to profit or loss			
Movement in translation reserve			
Exchange differences on translation		(709)	–
Total comprehensive loss for the year		(533,582)	(434,793)

The notes on pages 12 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year Ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
ASSETS			
Balances with central bank	*11*	120,203	453,237
Placements with and advances to banks	*12*	1,548,903	1,419,625
Investments in debt securities at amortised cost	*13*	1,579,214	2,234,177
Loans and advances	*14*	959,748	152,238
Prepaid expenses		20,005	15,409
Other deposits and receivables	*16*	38,091	12,708
Right-of-use assets	*17*	24,052	7,741
Property, plant and equipment	*18*	44,955	59,872
Intangible assets	*19*	34,207	49,692
Deferred tax asset	*20*	1,556	1,898
TOTAL ASSETS		4,370,934	4,406,597
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	*21*	3,437,291	3,049,320
Deposits from a related party	*29*	15,856	218,313
Accruals and other payables	*22*	284,317	140,312
Lease liabilities	*17*	26,739	8,339
TOTAL LIABILITIES		3,764,203	3,416,284
EQUITY			
Share capital	*23*	2,000,001	1,850,001
Accumulated losses		(1,392,561)	(859,688)
Exchange reserve		(709)	–
Equity attributable to owners of the Bank		606,731	990,313
Total equity		606,731	990,313
TOTAL LIABILITIES AND EQUITY		4,370,934	4,406,597

The notes on pages 12 to 55 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 21 April 2023:

Signed on behalf of the Board

ZHOU, MING
DIRECTOR

SUM, CHI HO
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2022

	Notes	Share capital HKD'000	Accumulated losses HKD'000	Exchange reserve HKD'000	Total HKD'000
At 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 and 1 January 2022		1,850,001	(859,688)	–	990,313
Capital contribution by the member	*23*	150,000	–	–	150,000
Currency translation differences		–	–	(709)	(709)
Loss for the year		–	(532,873)	–	(532,873)
At 31 December 2022		2,000,001	(1,392,561)	(709)	606,731

The notes on pages 12 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Cash flows from operating activities			
Net cash flows (used in)/generated from operative activities	24	(1,029,435)	2,029,299
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(8,080)	(15,556)
Purchase of intangible assets	19	(470)	(14,079)
Purchase of investment securities		(8,075,573)	(18,754,476)
Proceeds from maturity/sale of investment securities		8,733,250	16,530,551
Interest received		3,030	281
Net cash flows generated from/(used in) investing activities		652,157	(2,253,279)
Cash flows from financing activities			
Payments of principal of financial lease	17	(10,160)	(11,842)
Interest elements of lease payments	17	(141)	(138)
Capital contribution by the member	23	150,000	850,000
Net cash flows generated from financing activities		139,699	838,020
Net change in cash and cash equivalents		(237,579)	614,040
Cash and cash equivalents at the beginning of the year		1,479,904	865,864
Cash and cash equivalents at the end of the year	24	1,242,325	1,479,904

The notes on pages 12 to 55 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 2022, 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 21 April 2023.

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 basis.

New standards and interpretations adopted during the year

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

- Reference to the Conceptual Framework – amendments to HKFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – amendments to HKFRS 16
- Onerous Contracts – Cost of Fulfilling a Contract – amendments to HKFRS 37

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 2022 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.

Comparative figures

In 2022, the Group reclassified the cash flows arising from placement of bank deposits with original maturity beyond 3 months from investing activities to operating activities in the consolidated statement of cash flows in view of the alignment to the Company's business operation. Comparative figures in the financial statements have been reclassified to conform with current year's presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Foreign currency translation

(i) Functional and presentation 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.

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and all other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income on a net basis within other income.

(iii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Financial assets and financial liabilities at amortised cost

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets at amortised cost include cash and short-term deposits, investments in debt securities, 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(c) 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.

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(c) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Fair value measurement (Continued)

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.

d. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Impairment of financial instruments

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, retail loan and interbank exposures.

The Group recognises loss allowances for ECL for financial assets measured at amortised cost. ECL is measured on an individual asset basis and the Group has no purchased or originated credit-impaired ("POCI") financial assets.

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Impairment of financial instruments (Continued)

Measurement of ECL (Continued)

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.

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

f. 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.

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 recognized on a point-in-time basis as the related services are rendered.

g. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. 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 3(k) 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.

i. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Leases (Continued)

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)

i. 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.

j. 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)

k. 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.

l. 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)

m. Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

A provision is measured using the cash flows estimated to settle the present obligation, with its carrying amount reflecting the present value of those cash flows, where the effect of discounting is material. The commitment is any legal obligation to potentially make or receive cash payments or transfer cash. Commitments are not recognised in the financial statements. Disclosure is made unless the probability of settlement is remote.

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

n. 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 2022 onwards. The related tax losses can be carried forward until 2025.

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 INCOME/(EXPENSE)

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.

	2022 HK$'000	2021 HK$'000
Interest income		
Placements with and advances to banks	27,691	9,533
Financial assets measured at amortised cost	17,548	580
Loans and advances	10,815	524
	56,054	10,637
Interest expense		
Deposits from customers	48,188	24,689
Lease liabilities	304	129
Deposits from a fellow subsidiary	110	773
Deposits from a related party	280	54
	48,882	25,645
Net interest income/(expense)	7,172	(15,008)

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

6. NET FEE AND COMMISSION EXPENSES

	2022 HK$'000	2021 HK$'000
Fee income	94	2
Bank charges	(61)	(1,450)
Other fees	(8,746)	(2,476)
	(8,807)	(3,926)
Net Fee and Commission Expenses	(8,713)	(3,924)

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

7. OTHER INCOME

	2022 HK$'000	2021 HK$'000
Net foreign exchange gains	**1,143**	3,573

8. OPERATING EXPENSES

	2022 HK$'000	2021 HK$'000
Staff costs	**200,598**	208,999
Directors' remuneration		
Fees	**4,697**	2,190
Others	**–**	–
Depreciation of property, plant and equipment	**25,710**	28,628
Depreciation of right-of-use assets	**12,249**	10,544
Amortisation of intangible assets	**13,870**	13,767
Auditors' remuneration	**2,118**	1,855
Legal and professional fees	**18,445**	11,988
IT expenses	**180,436**	54,516
Premise expenses	**6,359**	5,157
Recruitment fee	**9,834**	9,234
Advertising and marketing expense	**26,797**	51,804
Others	**23,774**	21,057
Total	**524,887**	419,739

For the years ended 31 December 2022 and 31 December 2021, no retirement benefits were paid to director from the Bank or its subsidiaries for their services rendered during the reporting period. 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 during the year.

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 2022 and 2021.

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 2022 and 2021. The general PRC CIT rate is 25% in 2022 and 2021.

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

	2022 HK$'000	2021 HK$'000
Current income tax	–	–
Deferred income tax (note 20)	184	(1,883)
Total	184	(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 2022 and 31 December 2021.

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:

	2022 HK$'000	2021 HK$'000
Loss before income tax	(532,689)	(436,676)
Calculated at a tax rate of 16.5 % (2021: 16.5%)	(87,894)	(72,052)
Effects of different tax rates applicable to the subsidiary of the Group	(15)	263
Income not taxable for tax purpose	(1,866)	(3,966)
Expenses not deductible for tax purpose	7,112	4,159
Previously unrecognized tax losses utilised to reduce current tax expense	–	(2,665)
Tax losses not recognised	82,847	72,378
Income tax/(tax credit)	184	(1,883)

The unused Hong Kong tax losses of HKD1,422,302,000 as at 31 December 2022 (2021: HKD920,199,000) were incurred by the Bank. They can be carried forward indefinitely.

10. SUBSIDIARY

The Bank's principal subsidiary at 31 December 2022 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.

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Bank 2022 %	Ownership interest held by the Bank 2021 %	Ownership interest held by non-controlling interests 2022 %	Ownership interest held by non-controlling interests 2021 %
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$2,959,000 (2021：HK$1,986,000).

11. BALANCES WITH CENTRAL BANK

	2022 HK$'000	2021 HK$'000
Balances with central bank	**120,203**	453,237
Less: expected credit losses	**–**	–
Total	**120,203**	453,237

12. PLACEMENTS WITH AND ADVANCES TO BANKS

	2022 HK$'000	2021 HK$'000
Balances with banks	**172,114**	79,195
Placements with and advances to banks maturing within one month	**757,883**	931,899
Placements with and advances to banks maturing after one month but less than one year	**618,997**	408,563
Less: expected credit losses	**(91)**	(32)
Total	**1,548,903**	1,419,625

13. INVESTMENTS IN DEBT SECURITIES AT AMORTISED COST

	2022 HK$'000	2021 HK$'000
Investments in debt securities at amortised cost		
Debt securities:		
Exchange Fund Bills	734,999	1,449,725
Certificates of deposit	465,786	664,602
Bonds	378,497	119,922
Less: expected credit losses	(68)	(72)
	1,579,214	2,234,177
Type of issuer:		
Sovereign	925,843	1,449,703
Public Sector	108,863	–
Banks and other financial institutions	544,508	784,474
	1,579,214	2,234,177

14. LOANS AND ADVANCES

	2022 HK$'000	2021 HK$'000
Gross loans and advances to customers	966,627	154,085
Less: expected credit losses		
– Stage 1	(2,173)	(943)
– Stage 2	(3,819)	(904)
– Stage 3	(887)	–
	959,748	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.

	2022 HK$'000	2021 HK$'000
Financial assets		
Financial assets at amortised cost		
Investments in debt securities	**1,579,214**	2,234,177
Balances with central bank	**120,203**	453,237
Placements with and advances to banks	**1,548,903**	1,419,625
Loans and advances	**959,748**	152,238
Other deposits and receivables	**38,091**	12,708
Financial liabilities		
Financial liabilities at amortised cost		
Deposits from customers	**3,437,291**	3,049,320
Deposits from related parties	**15,856**	218,313
Accruals and other payables	**253,607**	101,695

16. OTHER DEPOSITS AND RECEIVABLES

	2022 HK$'000	2021 HK$'000
Interest receivable	**11,330**	863
Rental and other deposits	**7,716**	7,490
Other amounts receivable	**19,045**	4,355
	38,091	12,708

17. LEASES

Amounts recognised in the consolidated statement of financial position

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

	2022 HK$'000	2021 HK$'000
Right-of-use assets		
Buildings	24,052	7,741
Lease liabilities		
Current	12,506	7,850
Non-current	14,233	489
	26,739	8,339

Additions to the right-of-use assets during the 2022 financial year were HK$28,560,000 (2021: HK$3,174,000)

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:

	2022 HK$'000	2021 HK$'000
Depreciation charge of right-of-use assets		
Buildings	12,249	10,544
Interest expense (included in interest expense)	304	129
Expense related to short-term leases	–	–

The total cash outflow for leases in 2022 was HK$10,301,000 (2021: HK$11,980,000).

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 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 & 1 January 2022					
Cost	55,214	3,081	19,282	26,972	104,549
Accumulated depreciation	(15,893)	(915)	(7,924)	(19,945)	(44,677)
Net book amount	39,321	2,166	11,358	7,027	59,872
Year ended 31 December 2022					
Opening net book amount	39,321	2,166	11,358	7,027	59,872
Additions	6,389	230	4,212	284	11,115
Disposals	–	–	–	–	–
Depreciation charges (note 8)	(13,279)	(640)	(4,716)	(7,075)	(25,710)
Foreign exchange effect	(188)	(40)	(41)	(53)	(322)
Closing net book amount	32,243	1,716	10,813	183	44,955
At 31 December 2022					
Cost	61,381	3,263	23,668	27,102	115,414
Accumulated depreciation	(29,138)	(1,547)	(12,855)	(26,919)	(70,459)
Net book amount	32,243	1,716	10,813	183	44,955

19. INTANGIBLE ASSETS

	Software HK$'000	Total HK$'000
Non-Current		
At 1 January 2021		
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 and 1 January 2022		
Cost	72,679	72,679
Accumulated amortisation	(22,987)	(22,987)
Net book amount	49,692	49,692
Year ended 31 December 2022		
Opening net book amount	49,692	49,692
Additions	470	470
Adjustments	(2,085)	(2,085)
Amortisation charges (note 8)	(13,870)	(13,870)
Closing net book amount	34,207	34,207
At 31 December 2022		
Cost	71,101	71,101
Accumulated amortisation	(36,894)	(36,894)
Net book amount	34,207	34,207

20. DEFERRED TAX ASSET

Deferred tax asset as at 31 December 2022 and 2021 arised from recognition of unused tax losses of its Shenzhen subsidiary. The movement in the deferred tax account is as follows:

	2022 HK$'000	2021 HK$'000
At 1 January	**1,898**	–
Amount recognised in the statement of profit or loss and comprehensive income	**(184)**	1,883
Foreign exchange effect	**(158)**	15
At 31 December	**1,556**	1,898

21. DEPOSITS FROM CUSTOMERS

	2022 HK$'000	2021 HK$'000
Saving account balances	**241,674**	203,566
Term deposits	**3,195,617**	2,845,754
Total	**3,437,291**	3,049,320

22. ACCRUALS AND OTHER PAYABLES

	2022 HK$'000	2021 HK$'000
Staff compensation and benefits accruals	**33,663**	40,118
IT costs accruals	**159,246**	35,682
Accruals for fixed assets purchase	**3,035**	–
Accruals for intangible assets purchase	**746**	22,447
Interest payables	**19,305**	4,884
Other amounts payable	**68,322**	37,181
Total	**284,317**	140,312

23. SHARE CAPITAL

	Ordinary shares Number of shares	Share capital HK$'000
Issued and fully paid		
At 1 January 2021	1,000	1,000,001
Capital contribution by the member	–	850,000
At 31 December 2021 and 1 January 2022	1,000	1,850,001
Capital contribution by the member	–	150,000
At 31 December 2022	1,000	2,000,001

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:

	2022 HK$'000	2021 HK$'000
Balances with central bank	**120,203**	453,237
Cash at banks	**172,114**	79,195
Placement with banks	**950,008**	947,472
	1,242,325	1,479,904
Reconciliation with the statement of financial position:		
Balances with central bank	**120,203**	453,237
Placements with and advances to banks	**1,548,903**	1,419,625
Balances per statement of financial position	**1,669,106**	1,872,862
Less: amount with original maturities beyond three months	**(426,781)**	(392,958)
	1,242,325	1,479,904

24. ADDITIONAL CASH FLOW INFORMATION (Continued)

b. Reconciliation of cash flows from operating activities

	2022 HK$'000	2021 HK$'000
Loss before tax	(532,689)	(436,676)
Adjustments for:		
Interest income	(56,054)	(10,637)
Interest expense	48,882	25,645
Depreciation expense	37,959	39,172
Amortisation expense	13,870	13,767
Loss on disposal of fixed assets	–	67
Changes in expected credit losses	7,404	1,854
Foreign exchange loss/(gain)	225	(8)
Operating cash flows before changes in operating assets and liabilities	(480,403)	(366,816)
Changes in operating assets		
Increase in loans and advances	(812,542)	(154,085)
Increase in prepaid expenses	(4,596)	(661)
Increase in other deposits and receivables	(15,307)	(745)
Increase in placements of bank deposits with original maturity beyond 3 months	(33,872)	(362,969)
Changes in operating liabilities		
Increase in deposits from customers	387,971	2,724,376
(Decrease)/increase in deposits from related parties	(202,457)	202,808
Increase/(decrease) in accruals and other payables	123,534	(846)
Interest received	42,557	9,302
Interest paid	(34,320)	(21,065)
Net cash flows (used in)/generated from operating activities	(1,029,435)	2,029,299

c. Non-cash investing activities

Non-cash investing activities disclosed in other note is:

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

24. ADDITIONAL CASH FLOW INFORMATION (Continued)

d. Reconciliation of liabilities arising from financing activities

	Leases HK$'000
Balance as at 1 January 2021	(17,007)
Cashflows	11,980
Addition of new lease liabilities	(3,174)
Foreign exchange difference	(138)
Balance as at 31 December 2021 and 1 January 2022	(8,339)
Cashflows	10,301
Addition of new lease liabilities	(28,560)
Foreign exchange difference	(141)
Balance as at 31 December 2022	(26,739)

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. 12 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 advise 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.

25. FINANCIAL RISK MANAGEMENT

Risk management procedures (Continued)

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) and retail lending activities.

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 cover various areas including but not limited to governance structure, risk acceptance and tolerance level, credit risk strategy, exposure measurement and credit administration.

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.

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (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 for retail portfolio, sum over the next 12 months of annual PD multiplied by LGD and EAD for others, 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.

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.

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Write-offs (Continued)

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.

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.

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.

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Credit Monitoring and Control (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 2022 and 31 December 2021 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 2022			
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	1,669,197	–	–	1,669,197
Investment securities	1,579,282	–	–	1,579,282
Loans and advances	944,975	20,650	1,002	966,627
Other deposits and receivables	38,091	–	–	38,091

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Exposure to Credit Risk (Continued)

	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
Other deposits and receivables	12,708	–	–	12,708

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

	31 December 2022			31 December 2021		
Class	**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	**1,669,106**	**–**	**1,669,106**	1,872,862	–	1,872,862
Investment securities	**1,579,214**	**–**	**1,579,214**	2,234,177	–	2,234,177
Loans and advances	**959,748**	**–**	**959,748**	152,238	–	152,238
Other deposits and receivables	**38,091**	**–**	**38,091**	12,708	–	12,708

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Credit Quality

Exposure to credit risk by rating grades

Rating grades for non-individual obligors, 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 rating grade.

At 31 December 2022 in HK$'000	AA	A	BBB	Total Investment Grade	Non-Investment Grade	Unrated	Total Gross Carrying Amount	ECL Allowance	Total Carrying Amount
Subject to ECL:									
Cash and short term deposits	351,147	871,210	336,840	1,559,197	110,000	–	1,669,197	(91)	1,669,106
Investment securities	933,549	645,733	–	1,579,282	–	–	1,579,282	(68)	1,579,214
Other deposits and receivables	2,240	4,796	2,215	9,251	769	28,071	38,091	–	38,091
Total Subject to ECL	1,286,936	1,521,739	339,055	3,147,730	110,769	28,071	3,286,570	(159)	3,286,411

At 31 December 2021 in HK$'000	AA	A	BBB	Total Investment Grade	Non-Investment Grade	Unrated	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
Other deposits and receivables	26	94	301	421	290	11,997	12,708	–	12,708
Total Subject to ECL	2,222,045	1,166,990	539,693	3,928,728	179,126	11,997	4,119,851	(104)	4,119,747

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 enhancement made to estimation techniques that incorporates the Group's internal empirical information but no 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.

The following tables explain the changes in gross exposure and the loss allowance between the beginning and the end of the annual period due to these factors:

Loans and advances to customers

	2022							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000
Balance at 1 January	151,377	942	2,708	905	–	–	154,085	1,847
Transfers:								
Transfer from Stage 1 to Stage 2	(29,045)	(869)	29,045	869	–	–	–	–
Transfer from Stage 2 to Stage 1	11,894	2,692	(11,894)	(2,692)	–	–	–	–
Transfer to Stage 3	–	–	(2,633)	(1,281)	2,633	1,281	–	–
Transfer from Stage 3	–	–	10	7	(10)	(7)	–	–
Net new financial assets originated/ (asset derecognised)	810,749	(592)	3,414	6,011	697	1,931	814,860	7,350
Amounts written off	–	–	–	–	(2,318)	(2,318)	(2,318)	(2,318)
Balance at 31 December	944,975	2,173	20,650	3,819	1,002	887	966,627	6,879

	2021							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000	Gross exposure HK$'000	Allowance HK$'000
Balance at 1 January	–	–	–	–	–	–	–	–
Transfers:								
Transfer from Stage 1 to Stage 2	(1,688)	(27)	1,688	27	–	–	–	–
Transfer from Stage 2 to Stage 1	62	8	(62)	(8)	–	–	–	–
Transfer to Stage 3	–	–	–	–	–	–	–	–
Transfer from Stage 3	–	–	–	–	–	–	–	–
Net new financial assets originated/(asset derecognised)	153,003	962	1,082	885	–	–	154,085	1,847
Amounts written off	–	–	–	–	–	–	–	–
Balance at 31 December	151,377	943	2,708	904	–	–	154,085	1,847

25. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Expected credit loss allowance (Continued)

Financial instruments subject to the impairment requirements of HKFRS 9 (Continued)

Investments in debt securities at amortised cost

	2022			
Class	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	72	–	–	72
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net new financial assets originated/ (asset derecognised)	(4)	–	–	(4)
Amounts written off	–	–	–	–
Balance at 31 December	68	–	–	68

	2021			
Class	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
Balance at 1 January	–	–	–	–
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net new financial assets originated/ (asset derecognised)	72	–	–	72
Amounts written off	–	–	–	–
Balance at 31 December	72	–	–	72

Placements with and advances to banks

The changes in ECL on the placements with and advances to banks relate to stage 1 12 month ECL and the movement during the year arises from net new financial assets originated/(asset derecognised).

25. FINANCIAL RISK MANAGEMENT (Continued)

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 the Hong Kong Monetary Authority's (the "HKMA") 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.

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.

25. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

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 2022 and 31 December 2021. 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 2022	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	241,674	688,875	1,437,805	1,068,937	–	3,437,291
Deposits from related parties	–	–	15,856	–	–	15,856
Accruals and other payables	–	253,607	–	–	–	253,607
Total financial liabilities	241,674	942,482	1,453,661	1,068,937	–	3,706,754

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
Accruals and other payables	–	101,695	–	–	–	101,695
Total financial liabilities	289,356	844,176	2,211,614	24,182	–	3,369,328

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.

25. FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

The Group has established market risk management policy that outlines the market risk management framework according to the market risk appetite approved 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 limits are set up and reviewed by RC and approved by the Board according to the overall risk appetite of the Group, while the other key limits are set up and reviewed by RMC/ALCO 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:

	2022				2021			
	Foreign currency exposure HK$'000	Percentage change applied	Profit or loss HK$'000	Sensitivity to applied percentage change in currency (+/-) Other comprehensive income HK$'000	Foreign currency exposure HK$'000	Percentage change applied	Profit or loss HK$'000	Sensitivity to applied percentage change in currency (+/-) Other comprehensive income HK$'000
US Dollar	1,783	1%	18	–	5,645	1%	56	–
Yuan Renminbi	79,914	9%	7,192	–	122,431	9%	11,019	–
	81,697				128,076			

25. FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

Currency 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 2021 to 31 December 2022 (2021: from 1 January 2020 to 31 December 2021). 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 2022, or for the year ended 31 December 2021.

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$2,056,000 (2021: HK$7,779,000).

26. OPERATIONAL RISK

Operational Risk refers to the loss resulting from inadequate or failed internal processes, people and systems or from external events. 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 Operational Risk Management Policy to provide minimum standards over the 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 establishes Operational Risk Team within Risk Management department as the independent corporate operational risk management function (i.e. second LOD) to assist the Board and senior management in meeting their responsibility for understanding and managing operational risk. 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/service initiative and third party service arrangement (including outsourcing proposal) is subject to a risk review and governance process, where material risks are identified and assessed by Business unit (i.e. first LOD), and reviewed and challenged by relevant second LODs independent to the risk-taking unit proposing the product, service or third party service arrangement. Subsequent changes on the existing products, services and third party service (including outsourcing) arrangements 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 technology and cyber security related risk. To enhance the management of this risk, we have appointed a Head of Technology Risk who is responsible for our cyber security risk management strategy and programme.

The Group enhances its Operational Risk Management Policy to continually improve its operational resilience ability to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events. Business Continuity Management Policy is updated as well to set out the strategic approach of the Group to business continuity management, covering business impact 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:

	2022 HK$'000	2021 HK$'000
Share capital	2,000,001	1,850,001
Accumulated losses	(1,392,561)	(859,688)
Exchange reserve	(709)	–
	606,731	990,313

29. RELATED PARTY DISCLOSURES

Key management personnel remuneration

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. Their remunerations are as follows:

	2022 HK$'000	2021 HK$'000
Salaries and short-term employee benefits	34,135	27,045

Transactions with related parties

Term deposit

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

	2022		2021	
	Interest HK$'000	Balance HK$'000	Interest HK$'000	Balance HK$'000
Deposits from a fellow subsidiary	110	–	773	155,938
Deposits from a related party	280	15,856	54	62,375

The following transactions occurred with related parties:

	2022 HK$'000	2021 HK$'000
Other receivables		
Reimbursement of marketing costs	5,307	–
Total	5,307	–
Accruals and other payables		
Amount due to fellow subsidiaries	148,347	29,555
Total	148,347	29,555
Infrastructure services and other fees		
IT services paid to a fellow subsidiary	19,755	27,308
Other fees recharged by Tencent Group (Note)	122,612	1,517
Total	142,367	28,825

Note: Other fees recharged by Tencent Group represents fees paid by Tencent Group on behalf of the Group and charged back the Group in 2022.

29. RELATED PARTY DISCLOSURES

Transactions with related parties (Continued)

Property, plant and equipment and Intangible asset purchases

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

	2022 HK$'000	2021 HK$'000
Property, plant and equipment		
Tencent cloud infrastructure	8,065	435
Intangible asset		
Software	228	–
Total	8,293	435

30. SUBSEQUENT EVENT

The Group received funding in the form of capital injection amounting to HK$200,000,000 on 18 April 2023. This funding is to support the expansion of the Group's banking business.

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

(a) Statement of financial position

	2022 HK$'000	2021 HK$'000
ASSETS		
Balances with central bank	120,203	453,237
Placements with and advances to banks	1,545,944	1,417,639
Investments in debt securities	1,579,214	2,234,177
Loans and advances	959,748	152,238
Prepaid expenses	19,939	15,356
Other deposits and receivables	37,576	12,369
Investment in subsidiary	11,685	11,684
Right-of-use assets	21,885	5,349
Property, plant and equipment	42,327	56,028
Intangible assets	34,207	49,692
Total Assets	4,372,728	4,407,769
LIABILITIES AND EQUITY		
Liabilities		
Deposits from customers	3,437,291	3,049,320
Deposits from related parties	15,856	218,313
Accruals and other payables	282,805	138,799
Lease liabilities	24,374	5,709
Total Liabilities	3,760,326	3,412,141
EQUITY		
Share capital	2,000,001	1,850,001
Accumulated losses	(1,387,599)	(854,373)
Equity attributable to owners of the bank	612,402	995,628
TOTAL EQUITY	612,402	995,628
TOTAL LIABILITIES AND EQUITY	4,372,728	4,407,769

The statement of financial position of the Bank was approved by the Board of Directors and authorised for issue on 21 April 2023:

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 2021	(414,608)
Loss for the year	(439,765)
At 31 December 2021 and 1 January 2022	(854,373)
Loss for the year	(533,226)
At 31 December 2022	(1,387,599)

CLIMATE CHANGE RELATED DISCLOSURE

Response to Climate Change

The Bank provides the following climate-related information, covering Governance, Strategy, Risk Management, and Metrics and Targets in response to climate change, by making reference to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Governance

Governance Structure

- The Board of Directors ("the Board") is responsible for exercising oversight and decision-making authority, and ensure that any climate-related strategic and risk decisions are aligned with the Bank's policy and the applicable laws and regulations.

- Risk Committee ("RC") is responsible for monitoring climate-related issues and deliberating proposed actions for the Board's decision making.

- Risk Management Committee ("RMC") is a management-level committee, chaired by Chief Risk Officer (CRO), is responsible for managing key risks, including additional risk exposure arising from the climate change. It will continue monitoring market developments and report to the Board and RC which will determine whether adjustments to the roles and responsibilities of these governance committees are necessary in order to address these developments.

- Given the Bank's focus currently is on retail business, the risk exposure is considered to be minimal in the near term. The current governance structure is considered sufficient to cover management of climate-related risks and opportunities.

Roles and Responsibilities of Three Lines of Defence

- Since climate-related risk impacts across the whole risk inventory, there is no change on the adoption of existing Three Lines of Defence model to enable the Bank to effectively manage climate-related risks and opportunities, and therefore no incremental roles and responsibilities have been created.

Oversight and Monitoring

- RMC will be the main governance committee driving the integration of climate considerations into the Enterprise Risk Management Framework. Climate change is one of the many different topics that RMC will be discussed and updated at the regular RMC meetings. Any decisions and/or actions agreed will be reported to the Board and RC where appropriate for further discussion or decision making.

- The Bank has adequate escalation protocols embedded within various risk management policies. Trigger events relating to climate risks requiring immediate attention of the relevant governance committees can be effectively escalated in accordance with these pre-existing policies.

Capacity and Remuneration

- Training on climate-related risks and opportunities has been provided/will be regularly provided to those charged with governance, senior management and staff personnel to develop and strengthen their skills and abilities for the Bank to survive, adapt, and thrive in a fast-changing world.

- The Bank current remuneration policy maintains a balanced scorecard (e.g. adhering to bank's culture and conduct) approach which is aligned with the Bank's strategy for the management of climate-related risks and opportunities.

CLIMATE CHANGE RELATED DISCLOSURE (Continued)

Strategy

The Board and senior management are keenly aware of the potential impacts of climate change on the Bank's future business developments, particularly the expansion into corporate lending, the Bank therefore will continue to broaden and strengthen its efforts to identify climate-related risks and opportunities. Once identified, the Bank then assesses how the risks can be better managed, reduced or mitigated in line with its risk management framework, and incorporate climate-related considerations, both opportunities and risks, into the future strategy planning and enhancements to the Enterprise Risk Management Framework where considered appropriate.

The Bank has performed materiality assessment of the impact from climate changes on the traditional banking risks that the Bank has been managing. The outcome reveals that climate-related risk has very minimal impact to the Bank's business operations and exposures at the current stage. As such, the existing risk management framework, policies and procedures are adequate to address any potential risks involved in the near term.

Summary of key climate-related risks identified by the Bank:

Risk type	Climate related risk
Strategic risk	The Bank may lose its competitiveness and market standing due to the following: • fail to develop necessary risk management capabilities to capture new business opportunities arising from climate change • fail to appropriately incorporate impacts associated with climate change into its risk management framework, leading to inappropriate pricing or risk appetite • fail to at least stay on par with peer banks in terms of latest practices or product offering, leading to other challenges (e.g. talent or customer retention; reputational implications)
Reputational risk	The Bank's reputation will be adversely affected if: • it is unable to follow industry and regulatory actions to implement climate risk measures • it is identified to have major business relationship with corporates that are identified by media or regulators as posing significant impact on climate or inconsistent with the Bank's strategy/climate-related commitments • it is identified having greenwashing activities

Strategy (Continued)

Risk type	Climate related risk
Credit risk	Climate risk drivers can impact household, corporate, or sovereign income and/or wealth. Physical and transition risk drivers increase the Bank's credit risk as soon as they have a negative effect on a borrower's ability to repay and to service debt (the income effect) or on the Bank's ability to fully recover the value of a loan in the event of default because the value of any pledged collateral or recoverable value has been reduced (the wealth effect). This credit risk impact takes many different forms. Physical risk drivers mainly impact the Banks' credit risk indirectly through its counterparties. The physical capital (housing, vehicle, inventory, property, equipment or infrastructure of households, corporates and sovereigns) can be damaged or destroyed by physical hazards. This damage reduces the value of assets and, consequently, a counterparty's wealth. Physical risk drivers can also negatively impact cash flows of the affected entities as damaged physical capital, such as impaired rental properties and factories, will generate less income. Transition risk – While governments, consumers, and investors are becoming more cognisant of transition risk, the Bank has not yet suffered any losses arising from transitioning away from a carbon-intensive economy. Whether these losses will materialise in the future, and to what degree, will be determined by the path of carbon emissions over the coming decades. However, as market sentiments and regulations evolve, it may impact certain industries/economic sectors or counterparties imminently. Access to finance may dry up, put pressure on counterparty's liquidity and manifest into credit events.
Market risk	Climate risk drivers can have a significant impact on the value of financial assets. Specifically, physical and transition risks can alter or reveal new information about future economic conditions or the value of real or financial assets, resulting in downward price shocks and an increase in market volatility in traded assets. Climate risk could also lead to a breakdown in correlations between assets, reducing the effectiveness of hedges and challenging the Bank's ability to actively manage its risks. However, where climate risk is already priced in, the potential for unexpected price movements may be reduced. FX and interest rate risks are remotely related to climate risk in most major currencies of the developed countries. Extreme climate events with catastrophic economic impact or disruption of financial activities may cause short term fluctuation in FX and interest rates. Equity and credit spread risk impacts are similar to those assessed for credit risk of the issuer or counterparties.
Liquidity risk	Climate risk drivers may impact the Bank's liquidity risk directly, through its ability to raise funds or liquidate assets, or indirectly through customers' demands for liquidity. There is some evidence that natural disasters can lead to liquidity risk as a bank may not hold sufficient liquidity buffer to meet the drawdown needs of counterparties in the event of natural disasters. For instance, this occurred during the Great East Japan Earthquake in March 2011. These acute catastrophic events may also have an impact on the deposit base if withdrawals by customers and counterparties occur. Marketable securities held that are issued by issuers identified by media or regulators as posing significant impact on climate may encounter deeper discount to liquidate them in the market.

Strategy (Continued)

Risk type	Climate related risk
Operational risk	The Bank may incur financial loss arising from disruption of services or destruction of its own premises, properties and assets due to climate events. Outsourced activities may also be impacted by climate risks (i.e. third party dependencies). For instance, data center and etc. Disruption on the Bank's supply chain may also be impacted by climate events although the extent may not be significant given financial services organisation has less complex supply value chain.
Legal and compliance risk	The Bank may face litigation of violating any climate related laws and regulations if it fails to implement measures and controls to ensure their compliance. There may be potential non-compliance and litigation risks associated with greenwashing activities; inaccurate disclosures and etc.

Risk Management

Risk Appetite

- The Bank's lending portfolio is solely to retail customers and other counterparty exposures mostly with financial institutions and governments, without exposures to certain high emitting sectors. It was concluded that the Bank's exposure to climate-related risk is considered to be low and therefore the overall risk appetite statement remains appropriate.

- As the Bank's business strategy and market and regulatory landscape continue to evolve, the risk profile of the Bank may change. The Board and senior management will assess the implications on the Bank's risk appetite and propose adjustments where appropriate.

Climate Risk Assessment

- Climate-related risk can be characterised as a source of risk which can manifest itself into the traditional types of risks that the Bank is managing day-to-day, namely, strategic risk, reputational risk, credit risk, market risk, liquidity risk, operational risk, legal and compliance risk. The Bank has assessed the likelihood and magnitude of the climate change impact (both physical and transition risks) on these risk types by considering different factors, including but not limited to the following. The assessment is performed on an ongoing basis which will be refreshed as least annually or upon triggers.

    - nature and materiality of the exposures/assets that the Bank has

    - time horizon

    - size and operating model of the Bank (e.g. number of physical locations; types of outsourced/offshored activities)

Climate Risk Management Policies

- The assessment concludes that climate-related risk has minimal impact to the Bank's exposures and own operations at this stage. The Bank's existing risk management framework, policies and procedures are adequate to address any potential risks involved. However, the Bank will continue monitor and assess the risk exposure as its business, operations and market & regulatory landscape evolve.

CLIMATE CHANGE RELATED DISCLOSURE (Continued)

Metrics and Targets

Given the potential impact of climate change on the Bank's business operations, investments and counterparty exposures is considered to be immaterial at the moment, establishing specific metrics or targets (e.g. GHG reduction targets; exposures to high emitting sectors and etc.) for climate risk management purposes is not considered relevant and practical at this stage.

The Bank is in the process of researching market opportunities regarding to the green and sustainable financing in accordance with the Bank's strategy framework. The Board and senior management will consider relevant metrics/targets in connection with climate change where appropriate and will assess implications on resources, system, processes and internal controls adjustments to support such metrics and targets.