

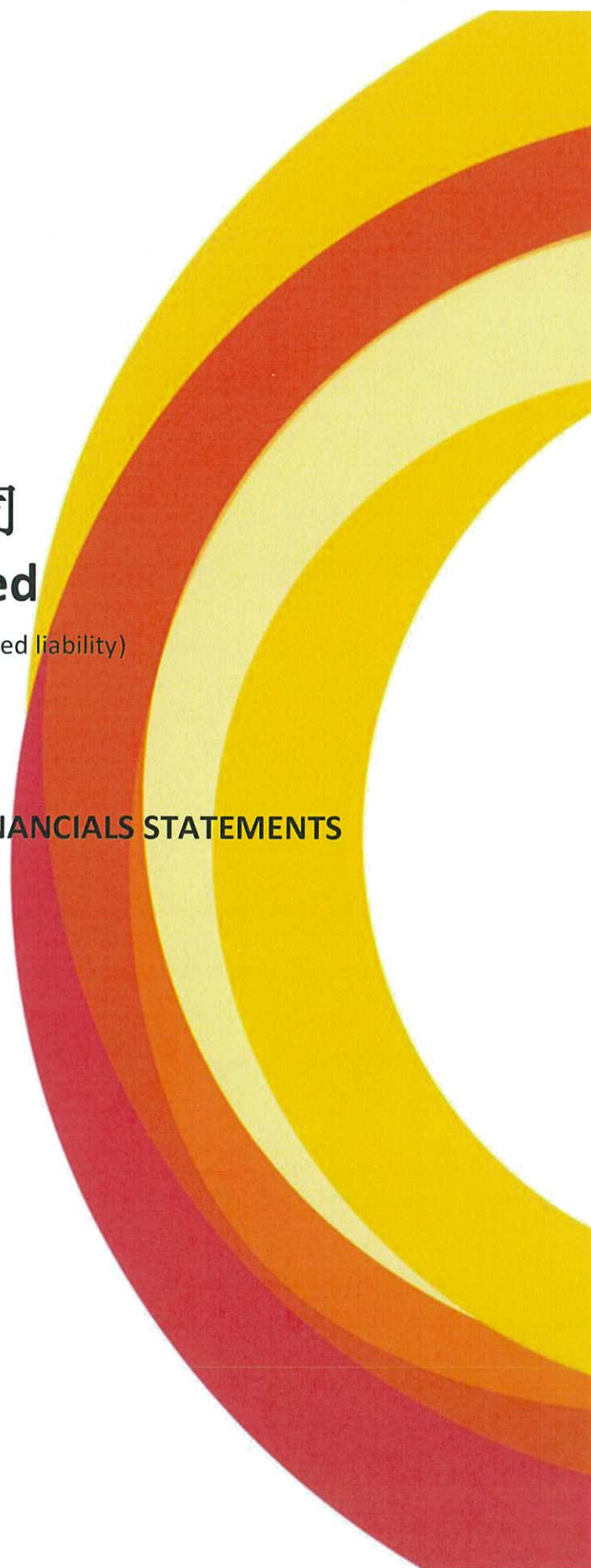
# Fusion Bank

富融銀行有限公司  
**Fusion Bank Limited**

(Incorporated in Hong Kong with limited liability)

**REPORT OF DIRECTORS  
AUDITED CONSOLIDATED FINANCIALS STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2024**



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## 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 2024.

## 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 set out in note 11 of the consolidated financial statements.

## BUSINESS REVIEW

Although the global economy showed signs of slow recovery in 2024, multiple uncertainties – including escalating geopolitical tensions, higher prices, and food and energy crises – continued to create a challenging external environment. Against this backdrop, Mainland China implemented several rounds of economic stabilization measures, helping the economic situation to regain a more solid footing. Hong Kong made excellent use of its advantages as an international financial center to successfully capture opportunities created by closer Greater Bay Area (“GBA”) integration and drive new growth momentum underpinned by technological innovations. In the face of such challenges and opportunities, under the leadership of the Board and management team of the Bank, officially embarked on its strategic transformation journey in 2024 and the early outcomes of this transformation have met the expectations of our stakeholders.

### Overall Financial Performance

In 2024, our revenue generation capabilities continued to strengthen. Net interest income increased by **77.6%** year-on-year to **HK\$ 74.84 million**. Combined with effective cost control measures, we reduced our loss after income tax by **32.2%** year-on-year to **HK\$275 million**. Additionally, at year-end, the Bank's total assets were up **41.4%** year-on-year at **HK\$8.03 billion**.

### Commercial Banking

Our Commercial Banking business took notable strides forward. In an uncertain market for commerce and business, we actively responded to calls from the Hong Kong Government and Hong Kong Monetary Authority to support small and medium-sized enterprises (“SMEs”), innovating our service delivery processes and launching two innovative new products: the Business Instalment Loan ‘365’ and Start-up Loan ‘162’. These new loan products fall under the HKMC Insurance Limited's SME Financing Guarantee Scheme as an ‘80% Guarantee Product’ and ‘90% Guarantee Product’, providing additional financing options for local small businesses and start-ups, and demonstrating our focus on providing support to this fundamental sector of Hong Kong's business community during challenging times. Despite intense market competition, our business development capabilities enabled us to build a commercial loan balance of nearly **HK\$460 million** in less than six months of operation.

We also partnered with WeBank, our strategic partner in the Mainland, to launch ‘WeBank X Fusion Bank GoGlobal Loan’, leveraging the Shenzhen-Hong Kong cross-boundary data validation platform to provide unsecured loan solutions for Hong Kong subsidiaries or affiliated enterprises of mainland SMEs. With its ability to effectively address the financing pain points these companies face during expansion outside the Mainland, this product has been well received in the market. By year-end, it had successfully helped over a dozen Hong Kong-based affiliates to obtain unsecured bank loans for the first time in Hong Kong.

### Personal Banking

Our Personal Banking business also recorded steady growth. We capitalised on market trends by rolling out attractive deposit products and deploying targeted, diversified marketing campaigns – leveraging tools such as welcome rewards, referral programmes, foreign exchange offers, and also collaborated with WeChat Pay. These actions resulted in the successful expansion of our deposit base. At 2024 year-end, total deposit balances reached **HK\$6.97 billion**, representing a 52.9% year-on-year increase. On the personal lending side, we strengthened our collaboration with Tesla, providing Tesla car owners a seamless loan application experience.

### Technology Investment

Guided by our continuing commitment to fostering financial inclusion through the use of technology, we continued to invest significantly in enhancing existing systems while also actively adopting new innovative fintech solutions to deliver higher-quality banking services.

A key milestone in 2024 was the successful upgrade of our core banking system to support our new business positioning and strategy. We completed the entire upgrade in just 10 months, setting a new benchmark for core banking system migration in the Hong Kong banking industry. The flexibility and scalability of our new-generation distributed core banking system will enable us to respond more rapidly to customer needs while reducing costs, establishing a solid foundation for our future development.

## BUSINESS REVIEW (CONTINUED)

### Technology Investment (continued)

A further landmark moment was becoming the first Hong Kong digital bank to participate in the pilot launch of the Shenzhen-Hong Kong cross-boundary data validation platform. The platform utilises blockchain and data coding for document verification, eliminating the costs associated with verification for both banks and customers. This development not only significantly shortens the loan approval cycle, but also helps address financing challenges faced by Hong Kong affiliates of mainland SMEs that lack property or other collateral on which to secure funds.

### Community Engagement

As a local digital bank, we are committed to giving back to the community. We sponsored the 2024 WSF World Squash Team Championships as its official banking partner. Our colleagues attended to support the Hong Kong athletes, reflecting our continued support for community and sports development and promoting a balanced lifestyle that values both personal health and financial well-being.

### Outlook

Hong Kong is the primary gateway for mainland enterprises seeking to expand overseas. As the trend for Chinese companies going global continues to gain momentum, we will continue to dedicate resources to serving the Hong Kong affiliates of mainland companies to meet their growing demands for financing, wealth management, foreign exchange, and payment services. Simultaneously, we will continue to move forward, side-by-side, with local SMEs, providing them with banking services that are fully aligned with their specific needs.

We firmly believe that artificial intelligence ("AI") will play a crucial role in the future development of the banking industry. Ensuring compliance with regulatory requirements and risk management principles, we will explore the feasibility of applying AI to optimize internal operations, strengthen systems stability, better identify the potential needs of customers, and enhance the customer experience, which will enable us to respond more precisely, more quickly and more effectively in serving the needs of our customer.

*"The road ahead may be long and winding, but perseverance leads to success."*

As we continue on our journey, we will seize opportunities in this highly fluid market environment, continue to drive sustainable business development, and advance toward an even better year in 2025.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2024 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 25 to the consolidated financial statements. There was no capital injection in 2024. (The Bank received capital funding on 18 April 2023, 7 August 2023 and 28 September 2023 from its shareholder amounting HK\$800,000,000.)

## DIRECTORS

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

### *Executive directors:*

SHU, Jared

### *Non-executive directors:*

PU, Hai Tao - Chairman

(appointed on 17 April 2024)

TANG, Ling

CHENG, Yun Ming Matthew

(resigned on 19 April 2024)

GU, Xuan

(resigned on 19 April 2024)

BAO, Haijie

(resigned on 19 April 2024)

## DIRECTORS (CONTINUED)

### *Independent non-executive directors:*

XIAO, Suining

CHAN, Sheung Wai Charles

FOK, Kai Kong Kenneth

There were no disagreements between the resigned directors and the Board, and there were nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholders of the Bank.

There being no provision to the Bank's Articles of Association in connection with the retirement of directors by rotation, all other directors continue in office for the following year.

## 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.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

During the year, Jared Shu, director of the Bank, was granted listed shares of Tencent Holdings Limited.

Except the above, 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.

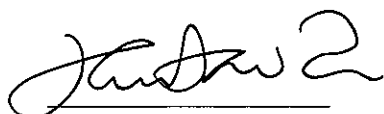
## PERMITTED INDEMNITY PROVISION

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



PU, HAI TAO

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

25 April 2025

## **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 61, comprise:

- the consolidated statement of financial position as at 31 December 2024;
- 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, comprising material accounting policy information 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 2024, 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.

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### **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 and supplementary financial information, 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.

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### **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.

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

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

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.
- 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes 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, 25 April 2025



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

Year Ended 31 December 2024

	Notes	2024 HK\$'000	2023 HK\$'000
Interest income		296,392	153,567
Interest expense		(221,552)	(111,431)
<b>Net interest income</b>	5	74,840	42,136
Net fee and commission expenses	6	(2,101)	(4,923)
Other income	7	1,023	1,218
Operating expenses	8	(342,558)	(413,334)
Operating losses before impairment losses		(268,796)	(374,903)
Net charge of impairment allowance	9	(6,108)	(30,779)
<b>Loss before income tax</b>		(274,904)	(405,682)
Income tax	10	(372)	(38)
<b>Loss after income tax</b>		(275,276)	(405,720)
<b>Other comprehensive income</b>			
<i>Item that maybe reclassified subsequently to profit or loss</i>			
<b>Movement in translation reserve</b>			
Changes in the fair value of financial investments measured at fair value through other comprehensive income ("FVOCI"), net of tax		(362)	-
Exchange differences on translation		(274)	(136)
<b>Total comprehensive income for the year</b>		(275,912)	(405,856)

The notes on pages 12 to 61 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year Ended 31 December 2024

	Notes	2024 HK\$'000	2023 HK\$'000
<b>ASSETS</b>			
Balances with central bank	12	236,024	99,520
Placements with and advances to banks	13	2,176,862	1,725,242
Investments in debt securities at amortised cost	14	753,695	3,104,353
Financial investments measured at FVOCI	15	3,807,499	-
Loans and advances	16	987,224	660,074
Prepaid expenses		11,986	10,589
Other deposits and receivables	17	18,401	12,097
Right-of-use assets	19	5,681	16,135
Property, plant and equipment	20	4,545	25,195
Intangible assets	21	23,060	22,796
Deferred tax asset	22	1,056	1,504
<b>TOTAL ASSETS</b>		<b>8,026,033</b>	<b>5,677,505</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from customers	23	6,966,060	4,555,308
Deposits from a related party	31	-	16,698
Accruals and other payables	24	307,282	87,200
Lease liabilities	19	5,628	17,424
<b>TOTAL LIABILITIES</b>		<b>7,278,970</b>	<b>4,676,630</b>
<b>EQUITY</b>			
Share capital	25	2,800,001	2,800,001
Accumulated losses		(2,073,557)	(1,798,281)
Reserves		20,619	(845)
<b>Equity attributable to owners of the Bank</b>		<b>747,063</b>	<b>1,000,875</b>
<b>Total equity</b>		<b>747,063</b>	<b>1,000,875</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,026,033</b>	<b>5,677,505</b>

The notes on pages 12 to 61 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 25 April 2025:

Signed on behalf of the Board



PU, HAI TAO  
DIRECTOR



SHU, JARED  
DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2024

		Share capital	Accumulated losses	Financial assets at FVOCI reserve	Share-based payment reserve	Exchange reserve	Total
	Notes	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
<b>At 1 January 2023</b>		2,000,001	(1,392,561)	-	-	(709)	606,731
Capital contribution by the member	25	800,000	-	-	-	-	800,000
Currency translation differences		-	-	-	-	(136)	(136)
Loss for the year		-	(405,720)	-	-	-	(405,720)
<b>At 31 December 2023 and 1 January 2024</b>		2,800,001	(1,798,281)	-	-	(845)	1,000,875
Other comprehensive income		-	-	(362)	-	-	(362)
Share-based payment		-	-	-	22,100	-	22,100
Currency translation differences		-	-	-	-	(274)	(274)
Loss for the year		-	(275,276)	-	-	-	(275,276)
<b>At 31 December 2024</b>		2,800,001	(2,073,557)	(362)	22,100	(1,119)	747,063

The notes on pages 12 to 61 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2024

	Notes	2024 HK\$'000	2023 HK\$'000
<b>Cash flows from operating activities</b>			
Net cash flows generated from operating activities	26(b)	1,626,837	166,726
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	20	-	(1,677)
Purchase of intangible assets	21	(13,719)	(3,699)
Proceeds from disposal of property, plant and equipment	20	-	162
Purchase of investment securities		(18,408,288)	(10,902,178)
Proceeds from maturity/sale of investment securities		17,154,874	9,395,296
Interest received		178,539	48,946
<b>Net cash flows used in investing activities</b>		<b>(1,088,594)</b>	<b>(1,463,150)</b>
<b>Cash flows from financing activities</b>			
Payments of principal of financial lease	19	(11,970)	(12,893)
Interest elements of lease payments	19	(402)	(667)
Capital contribution by the member	25	-	800,000
<b>Net cash flows (used in)/generated from financing activities</b>		<b>(12,372)</b>	<b>786,440</b>
<b>Net change in cash and cash equivalents</b>		<b>525,871</b>	<b>(509,984)</b>
Cash and cash equivalents at the beginning of the year		732,527	1,242,325
Effect of exchange rate changes on cash and cash equivalents		209	186
<b>Cash and cash equivalents at the end of the year</b>	26(a)	<b>1,258,607</b>	<b>732,527</b>

The notes on pages 12 to 61 are an integral part of these consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*Year Ended 31 December 2024*

## 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 principal activity of the Bank is the operation of digital bank.

As at 31 December 2024, 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 25 April 2025.

## 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 2024:

- Classification of Liabilities as Current or Non-current and Non-current liabilities with covenants – Amendments to HKAS 1;
- Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause – Hong Kong Interpretation 5 (Revised);
- Lease Liability in Sale and Leaseback – Amendments to HKFRS 16; and
- Supplier Finance Arrangements – Amendments to HKAS 7 and HKFRS 7.

The amendments listed above did not have any material 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)

### **Amendments to standards and interpretation issued but not yet effective**

The following amendment to standards and interpretation have not come into effect for the financial year beginning on 1 January 2024 and have not been early adopted by the Group in preparing the financial statements. This is not expected to have a significant effect on the financial statements of the Group.

#### **HKFRS 18 “Presentation and Disclosure in Financial Statements,”**

The HKICAP has issued HKFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in HKFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity’s financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

HKFRS 18 will replace HKAS 1; many of the other existing principles in HKAS 1 are retained, with limited changes. HKFRS 18 will not impact on the recognition or measurement of items in the financial statements, but it might change what an entity in the current or future reports as its ‘operating profit or loss’.

HKFRS 18 will apply for reporting periods and on foreseeable future transactions beginning on or after 1 January 2027 and also applies to comparative information. The Group has yet to determine the impact of the adoption and does not intend to adopt this standard before its effective date.

#### **Amendments to the Classification and Measurement of Financial Instruments - Amendments to HKFRS 9 and HKFRS 7 (effective for annual periods beginning on or after 1 January 2026)**

The HKICPA issued targeted amendments to HKFRS 9 and HKFRS 7 to respond to recent questions arising in practice, and to include new requirements not only for financial institutions but also for corporate entities. These amendments:

- clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (“SPPI”) criterion;
- add new disclosures for certain instruments with contractual terms that can change cash flows (such as some financial instruments with features linked to the achievement of environment, social and governance targets); and
- update the disclosures for equity instruments designated at FVOCI.

The Group does not expect these amendments to have a material impact on its operations or financial statements.

### **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.

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

#### a. 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.

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.

#### b. 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 statement of profit or loss and 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### c. Financial assets and financial liabilities

##### Financial assets

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.

##### Classification and measurement

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

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

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. Except for accounts receivable, at initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. There are three categories into which the Group classifies its debt instruments:

**Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt instrument measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest method.

**FVOCI:** Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are classified as and measured at FVOCI. Gains and losses on these financial assets are taken through other comprehensive income, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is recognised using the effective interest method. Foreign exchange gains and losses are presented in "Finance costs" and impairment losses or reversals are presented in "Net charge of impairment allowance".

**Fair value through profit or loss ("FVPL"):** Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at FVPL. A gain or loss on a debt instrument measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss for the period in which it arises.

The Group reclassifies financial assets when and only when its business model for managing those assets changes.



### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### c. Financial assets and financial liabilities (Continued)

##### Financial liabilities

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 FVPL. They are recognised when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of profit or loss and comprehensive income in 'Interest expense' using the effective interest rate ("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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### d. 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.

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### d. Fair value measurement (Continued)

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

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

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

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

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

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### e. **Derecognition of financial assets and liabilities**

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

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

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

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

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

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

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



### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### f. 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 MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### f. 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 27.

#### g. Revenue recognition

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The EIR 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 EIR, 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 EIR, 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 recognised on a point-in-time basis as the related services are rendered.

#### h. Employee benefit expense

Liabilities for wages, salaries, including bonus and annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### i. Cash and cash equivalents

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

#### j. Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, please refer to note 3(m) for impairment treatment.

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

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### k. Leases

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

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

- i. fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- ii. variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

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.

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.

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

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

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.

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### **I. 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

#### **m. Impairment of non-financial assets**

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

#### **n. Current and deferred income tax**

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

##### ***Current income tax***

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

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### n. Current and deferred income tax (Continued)

##### *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 recognised 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 realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised 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.

#### o. 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.

#### p. 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.

### 3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### q. **Share-based payments**

The Group granted a share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments of ultimate parent company. The fair value of the employee services received in exchange for the grant of equity instruments of ultimate parent company is recognised as an expense over the vesting period, i.e. the period over which all of the specified vesting conditions are to be satisfied and credited to equity.

If the terms of an equity-settled share-based award are modified, an additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees, as measured at the date of modification. Modifications of an equity-settled share-based award in a manner that is not beneficial to employees are not taken into account when determining the expenses to be recognised.

If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Group accounts for the cancellation or settlement as an acceleration of vesting, and therefore recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

## 4. CRITICAL ESTIMATION AND JUDGEMENTS

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.

Deferred tax liabilities are recognised on all temporary differences and deferred tax assets are recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset. 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 generates taxable income from 2023 onwards. The related tax losses can be carried forward until 2026.

### **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 27.



## 5. NET INTEREST INCOME

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

	2024 HK\$'000	2023 HK\$'000
<b>Interest income</b>		
Placements with and advances to banks	72,174	60,131
Investments in debt securities at amortised cost	140,686	65,305
Financial investments measured at FVOCI	51,035	-
Loans and advances	32,497	28,131
	296,392	153,567
<b>Interest expense</b>		
Deposits from customers	220,424	110,312
Lease liabilities	402	667
Deposits from a related party (note 31)	726	452
	221,552	111,431
<b>Net interest income</b>	<b>74,840</b>	<b>42,136</b>

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

	2024 HK\$'000	2023 HK\$'000
Fee income	755	546
Bank charges	(212)	(157)
Other fees	(2,644)	(5,312)
<b>Fee expenses</b>	<b>(2,856)</b>	<b>(5,469)</b>
<b>Net Fee and Commission Expenses</b>	<b>(2,101)</b>	<b>(4,923)</b>

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

## 7. OTHER INCOME

	2024 HK\$'000	2023 HK\$'000
Net foreign exchange gains	872	875
Others	151	343
<b>Total</b>	<b>1,023</b>	<b>1,218</b>

## 8. OPERATING EXPENSES

	2024 HK\$'000	2023 HK\$'000
Staff costs	173,927	217,808
Directors' remuneration		
Fees	15,848	6,130
Others	4,456	3,561
Depreciation of property, plant and equipment (note 20)	20,477	17,564
Depreciation of right-of-use assets (note 19)	10,698	11,494
Amortisation of intangible assets (note 21)	16,307	14,997
Auditors' remuneration	2,464	2,280
Legal and professional fees	5,596	22,244
IT expenses	60,945	70,954
Premise expenses	6,195	6,987
Recruitment fee	696	2,853
Advertising and marketing expense	3,860	6,477
Others	21,089	29,985
<b>Total</b>	<b>342,558</b>	<b>413,334</b>

For the years ended 31 December 2024 and 31 December 2023, 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.

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

## 9. NET CHARGE OF IMPAIRMENT ALLOWANCE

	2024 HK\$'000	2023 HK\$'000
Loans and advances to customers	6,517	29,997
Other financial assets	(409)	782
<b>Total</b>	<b>6,108</b>	<b>30,779</b>

## 10. 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 2024 and 2023.

### b. People's Republic of China 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 2024 and 2023. The general PRC CIT rate is 25% in 2024 and 2023.

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

	2024 HK\$'000	2023 HK\$'000
Current income tax	-	-
Deferred income tax (note 22)	372	38
<b>Total</b>	<b>372</b>	<b>38</b>

## 10. INCOME TAX (CONTINUED)

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 2024 and 31 December 2023.

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:

	2024 HK\$'000	2023 HK\$'000
Loss before income tax	(274,904)	(405,682)
Calculated at a tax rate of 16.5% (2023: 16.5%)	(45,359)	(66,938)
Effects of different tax rates applicable to the subsidiary of the Group	19	46
Income not taxable for tax purpose	(9,848)	(8,612)
Expenses not deductible for tax purpose	10,854	13,140
Tax losses not recognised	41,957	62,402
Temporary difference not recognised	2,749	-
<b>Income tax</b>	<b>372</b>	<b>38</b>

The unused Hong Kong tax losses of HKD2,037,491,000 as at 31 December 2024 (2023: HKD1,785,226,000) were incurred by the Bank. They can be carried forward and all tax losses do not expire under current tax legislation.

## 11. SUBSIDIARY

The Bank's principal subsidiary at 31 December 2024 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	
				2024 %	2023 %
Shenzhen Fusion Information Technology Services Co. Ltd.	PRC, limited liability company	IT Services, PRC	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\$4,153,000 (2023: HK\$3,617,000).

## 12. BALANCES WITH CENTRAL BANK

	2024 HK\$'000	2023 HK\$'000
Balances with central bank	236,024	99,520
Less: expected credit losses	-	-
<b>Total</b>	<b>236,024</b>	<b>99,520</b>

## 13. PLACEMENTS WITH AND ADVANCES TO BANKS

	2024 HK\$'000	2023 HK\$'000
Balances with banks	361,244	121,022
Placements with and advances to banks maturing within one month	670,526	689,277
Placements with and advances to banks maturing after one month but less than one year	1,145,246	915,216
Less: expected credit losses - stage 1	(154)	(273)
<b>Total</b>	<b>2,176,862</b>	<b>1,725,242</b>

## 14. INVESTMENTS IN DEBT SECURITIES AT AMORTISED COST

	2024 HK\$'000	2023 HK\$'000
<b>Investments in debt securities at amortised cost</b>		
Debt securities:		
Exchange Fund Bills	119,986	825,605
Certificates of deposit	321,323	1,174,890
Bonds	312,421	1,104,526
Less: expected credit losses - stage 1	(35)	(668)
	<b>753,695</b>	<b>3,104,353</b>
Type of issuer:		
Sovereign	146,717	1,012,706
Public Sector	119,804	228,165
Banks and other financial institutions	487,174	1,863,482
	<b>753,695</b>	<b>3,104,353</b>

## 15. FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2024 HK\$'000	2023 HK\$'000
<b>Financial investments measured at fair value through other comprehensive income</b>		
Debt securities:		
Exchange Fund Bills	1,560,212	-
Certificates of deposit	978,944	-
Bonds	1,268,343	-
	<b>3,807,499</b>	<b>-</b>
Type of issuer:		
Sovereign	1,833,895	-
Public Sector	162,357	-
Corporates	193,217	-
Banks and other financial institutions	1,618,030	-
	<b>3,807,499</b>	<b>-</b>

## 16. LOANS AND ADVANCES

	2024 HK\$'000	2023 HK\$'000
Gross loans and advances to customers	998,371	675,935
Less: expected credit losses		
- Stage 1	(2,879)	(3,043)
- Stage 2	(4,648)	(9,554)
- Stage 3	(3,620)	(3,264)
	<b>987,224</b>	<b>660,074</b>

## 17. OTHER DEPOSITS AND RECEIVABLES

	2024 HK\$'000	2023 HK\$'000
Rental and other deposits	9,783	10,409
Accounts receivable on unsettled trade	7,931	-
Other amounts receivable	687	1,688
	18,401	12,097

## 18. 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.

	2024 HK\$'000	2023 HK\$'000
<b>Financial assets</b>		
Financial assets at amortised cost		
Investments in debt securities	753,695	3,104,353
Balances with central bank	236,024	99,520
Placements with and advances to banks	2,176,862	1,725,242
Loans and advances	987,224	660,074
Other deposits and receivables	18,401	12,097
Financial assets at FVOCI		
Financial investments	3,807,499	-
<b>Financial liabilities</b>		
Financial liabilities at amortised cost		
Deposits from customers	6,966,060	4,555,308
Deposits from a related party	-	16,698
Accruals and other payables	277,830	53,802
Lease liabilities	5,628	17,424

## 19. LEASES

### Amounts recognised in the consolidated statement of financial position

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

	2024 HK\$'000	2023 HK\$'000
<b>Right-of-use assets</b>		
Buildings	5,681	16,135
<b>Lease liabilities</b>		
Current	5,074	12,001
Non-current	554	5,423
	5,628	17,424

Additions to the right-of-use assets during the 2024 financial year were HK\$264,000 (2023: HK\$3,508,000).

### 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:

	2024 HK\$'000	2023 HK\$'000
<b>Depreciation charge of right-of-use assets</b>		
Buildings	10,698	11,494
<b>Interest expense (included in interest expense)</b>	402	667

The total cash outflow for leases in 2024 was HK\$12,372,000 (2023: HK\$13,560,000).

### 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.

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.



## 20. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment HK\$'000	Furniture and Fixtures HK\$'000	Computer Equipment HK\$'000	Leasehold Improvements HK\$'000	Total HK\$'000
<b>At 1 January 2023</b>					
Cost	61,381	3,263	23,668	27,102	115,414
Accumulated depreciation	(29,138)	(1,547)	(12,855)	(26,919)	(70,459)
<b>Net book amount</b>	<b>32,243</b>	<b>1,716</b>	<b>10,813</b>	<b>183</b>	<b>44,955</b>
<b>Year ended 31 December 2023</b>					
Opening net book amount	32,243	1,716	10,813	183	44,955
Additions	1,279	-	398	-	1,677
Disposals	(3)	(159)	-	-	(162)
Write-off	-	-	(3,653)	-	(3,653)
Depreciation charges (note 8)	(12,662)	(636)	(4,083)	(183)	(17,564)
Foreign exchange effect	(38)	(14)	(6)	-	(58)
<b>Closing net book amount</b>	<b>20,819</b>	<b>907</b>	<b>3,469</b>	<b>-</b>	<b>25,195</b>
<b>At 31 December 2023 &amp; 1 January 2024</b>					
Cost	62,602	3,027	20,182	27,102	112,913
Accumulated depreciation	(41,783)	(2,120)	(16,713)	(27,102)	(87,718)
<b>Net book amount</b>	<b>20,819</b>	<b>907</b>	<b>3,469</b>	<b>-</b>	<b>25,195</b>
<b>Year ended 31 December 2024</b>					
Opening net book amount	20,819	907	3,469	-	25,195
Depreciation charges (note 8)	(17,050)	(599)	(2,828)	-	(20,477)
Foreign exchange effect	(165)	(5)	(3)	-	(173)
<b>Closing net book amount</b>	<b>3,604</b>	<b>303</b>	<b>638</b>	<b>-</b>	<b>4,545</b>
<b>At 31 December 2024</b>					
Cost	22,328	3,014	20,165	26,999	72,506
Accumulated depreciation	(18,724)	(2,711)	(19,527)	(26,999)	(67,961)
<b>Net book amount</b>	<b>3,604</b>	<b>303</b>	<b>638</b>	<b>-</b>	<b>4,545</b>

## 21. INTANGIBLE ASSETS

	Software HK\$'000	Total HK\$'000
<b>Non-Current</b>		
<b>At 1 January 2023</b>		
Cost	71,101	71,101
Accumulated amortisation	(36,894)	(36,894)
<b>Net book amount</b>	<b>34,207</b>	<b>34,207</b>
<b>Year ended 31 December 2023</b>		
Opening net book amount	34,207	34,207
Additions	3,699	3,699
Write-off	(113)	(113)
Amortisation charges (note 8)	(14,997)	(14,997)
<b>Closing net book amount</b>	<b>22,796</b>	<b>22,796</b>
<b>At 31 December 2023 and 1 January 2024</b>		
Cost	74,687	74,687
Accumulated amortisation	(51,891)	(51,891)
<b>Net book amount</b>	<b>22,796</b>	<b>22,796</b>
<b>Year ended 31 December 2024</b>		
Opening net book amount	22,796	22,796
Additions	16,571	16,571
Amortisation charges (note 8)	(16,307)	(16,307)
<b>Closing net book amount</b>	<b>23,060</b>	<b>23,060</b>
<b>At 31 December 2024</b>		
Cost	91,258	91,258
Accumulated amortisation	(68,198)	(68,198)
<b>Net book amount</b>	<b>23,060</b>	<b>23,060</b>

## 22. DEFERRED TAX ASSET

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax credits in accordance with HKAS 12 "Income Taxes". The major components of deferred tax assets/(liabilities) recorded in the balance sheet, and the movements during the year are as follows:

	Unused tax losses HK'000
At 1 January 2023	1,556
(Charged)/credited to the statement of profit or loss and comprehensive income (note 10)	(38)
Exchange difference and others	(14)
<b>At 31 December 2023</b>	<b>1,504</b>
(Charged)/credited to the statement of profit or loss and comprehensive income (note 10)	(372)
Exchange difference and others	(76)
<b>At 31 December 2024</b>	<b>1,056</b>

## 22. DEFERRED TAX ASSET (CONTINUED)

Deferred income tax assets are recognised for deductible temporary differences and tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group only recognises deferred income tax assets for unused cumulative tax losses if it is probable that future taxable profits will be available to utilise those tax losses. The Group did not recognise deferred income tax assets of HKD336,186,000 (2023: HKD294,562,000) in respect of losses amounting to HKD2,037,491,000 (2023: HKD1,785,226,000) that can be carried forward against future taxable income.

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2024 HK\$'000	2023 HK\$'000
Deferred tax asset	1,056	1,504

## 23. DEPOSITS FROM CUSTOMERS

	2024 HK\$'000	2023 HK\$'000
Saving account balances	429,024	291,966
Term deposits	6,537,036	4,263,342
<b>Total</b>	<b>6,966,060</b>	<b>4,555,308</b>

## 24. ACCRUALS AND OTHER PAYABLES

	2024 HK\$'000	2023 HK\$'000
Staff compensation and benefits accruals	29,452	33,398
IT costs accruals	24,408	17,359
Accruals for intangible assets purchase	2,852	-
Account payable on unsettled trade	198,083	-
Other amounts payable	52,487	36,443
<b>Total</b>	<b>307,282</b>	<b>87,200</b>

## 25. SHARE CAPITAL

	Ordinary shares Number of shares	Share capital HK\$'000
Issued and fully paid		
At 1 January 2023	1,000	2,000,001
Capital contribution by the member	-	800,000
<b>At 31 December 2023, 1 January 2024 and 31 December 2024</b>	<b>1,000</b>	<b>2,800,001</b>

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.

## 26. 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:

	2024 HK\$'000	2023 HK\$'000
Balances with central bank	236,024	99,520
Balances with banks	361,244	121,022
Placement with banks	661,339	511,985
	1,258,607	732,527
Reconciliation with the statement of financial position:		
Balances with central bank	236,024	99,520
Placements with and advances to banks	2,177,016	1,725,515
Balances per statement of financial position	2,413,040	1,825,035
Less: amount with original maturities beyond three months	(1,154,433)	(1,092,508)
	1,258,607	732,527

### b. Reconciliation of cash flows from operating activities

	2024 HK\$'000	2023 HK\$'000
Loss before tax	(274,904)	(405,682)
<i>Adjustments for:</i>		
Interest income	(296,392)	(153,567)
Interest expense	221,552	111,431
Depreciation expense (note 8)	31,175	29,058
Amortisation expense (note 8)	16,307	14,997
Write-off	-	3,766
Changes in expected credit losses	6,108	30,779
Share-based payment	22,100	-
Effect of exchange rate changes	(872)	(875)
Operating cash flows before changes in operating assets and liabilities	(274,926)	(370,093)
Changes in operating assets		
(Increase)/Decrease in loans and advances	(332,018)	292,171
(Increase)/Decrease in prepaid expenses	(1,397)	9,416
Decrease in other deposits and receivables	1,462	14,664
Increase in placements of bank deposits with original maturity beyond 3 months	(60,797)	(665,636)
Changes in operating liabilities		
Increase in deposits from customers	2,411,821	1,076,252
(Decrease)/Increase in deposits from a related party	(16,470)	614
Increase/(Decrease) in accruals and other payables	19,182	(177,864)
Interest received	102,427	75,107
Interest paid	(222,447)	(87,905)
<b>Net cash flows generated from operating activities</b>	<b>1,626,837</b>	<b>166,726</b>

## 26. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

### c. Non-cash investing activities

Non-cash investing activities disclosed in other note is:

- Acquisition of right-of-use assets - note 19

### d. Reconciliation of lease liabilities arising from financing activities

	Leases HK\$'000
<b>Balance as at 1 January 2023</b>	(26,739)
Cashflows	12,893
Addition of new lease liabilities (note 19)	(3,508)
Foreign exchange difference	(70)
<b>Balance as at 31 December 2023 and 1 January 2024</b>	(17,424)
Cashflows	12,372
Addition of new lease liabilities (note 19)	(264)
Foreign exchange difference	(312)
<b>Balance as at 31 December 2024</b>	(5,628)

## 27. 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 principal risks, which include credit, capital, market, liquidity, interest rate risk in the banking book ("IRRBB"), operational, cyber and technology, 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 ("RC"), 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. RC 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 RC. The actual risk appetite report would also be monitored and reviewed through Risk Management Committee ("RMC"), one of the management committee in the Group, not less than 6 times each year to ensure issue can be escalated to the senior management and the Board, and mitigating actions can be taken in a timely manner.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### **Risk management procedures (Continued)**

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, monitors risk management activities and supports controls; third LOD who provides assurance that the risk management process is effectively in place.

The Group also performs stress testing exercises regularly in order to evaluate the potential adverse impact on the Group’s profitability and capital adequacy due to deterioration in economic condition and this programme is 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), retail and corporates lending activities. 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 approved by the Board or its delegated committee(s) to identify, measure, monitor and control credit risk at both portfolio level and individual level. These policies and procedures covers various areas including but not limited to governance structure, risk acceptance and tolerance level, credit risk strategy, exposure measurement and credit administration.

#### ***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 approved by the Board or its delegated committee(s) 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 significant increase in credit risk (“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.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### **Credit Risk (Continued)**

#### ***Calculation of ECL***

ECL are calculated using three main components:

- 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 and corporate 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.

#### ***Incorporation of forward-looking information into ECL models***

HKFRS9 requires an estimate of forward-looking ECL which is typically obtained through the use of forecasted macroeconomic factors ("MEFs").

The Group has developed three scenarios for macro-economic factors and its underlying assumptions of the scenario are listed below:

- The base scenario is based on a set of macroeconomic forecasts which formulate a "base case" view of the most probable future direction of relevant economic variables
- The good scenario is determined by making reference to the "base" scenario and reflects positive uncertainties by incorporating upside variations to the "base" scenario macroeconomic forecasts.
- The bad scenario is determined by making reference to the "base" scenario and reflects negative uncertainties by incorporating downside variations to the "base" scenario macroeconomic forecasts.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit Risk (Continued)

#### *Incorporation of forward-looking information into ECL models (continued)*

The Group has considered the current economic performance, the market forecast and the management judgement on the economic outlook and assigned probability weighting to Good, Bad and Base Scenarios:

	31 December 2024	31 December 2023
Good	10%	10%
Bad	40%	40%
Base	50%	50%

At 31 December 2024

The assumptions used for ECL estimations for the retail exposure are as follows:

	Scenario	2025 Forward-looking (Year end)	5 years' average (2025-2029)
Hong Kong Unemployment Rate (%)	Good	2.51	2.51
	Base	2.80	2.76
	Bad	3.98	3.74
Hong Kong Private Retail Price Index	Good	487.11	583.98
	Base	438.37	470.06
	Bad	411.29	416.98
Hong Kong GDP YoY (%)	Good	3.77	3.33
	Base	3.18	2.87
	Bad	1.50	1.43

The assumptions used for ECL estimations for the wholesale exposure are as follows:

	Scenario	2025 Forward-looking (Year end)	5 years' average (2025-2029)
Hong Kong GDP (%)	Good	3.64	3.33
	Base	3.11	2.87
	Bad	1.58	1.43
China Unemployment Rate (%)	Good	3.64	3.51
	Base	3.82	3.72
	Bad	3.97	3.92
United States of America GDP (%)	Good	2.54	2.83
	Base	2.26	2.34
	Bad	1.59	1.49
China GDP (%)	Good	4.89	4.77
	Base	4.17	4.14
	Bad	3.43	3.54
United States of America Export (%)	Good	4.45	4.80
	Base	2.62	2.78
	Bad	0.35	0.72



## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit Risk (Continued)

#### *Incorporation of forward-looking information into ECL models (continued)*

At 31 December 2023

The assumptions used for ECL estimations for the retail exposure are as follows:

	Scenario	2024 Forward-looking (Year end)	5 years' average (2024-2028)
Hong Kong Unemployment Rate (%)	Good	2.80	2.75
	Base	3.50	3.02
	Bad	4.60	3.55
Hong Kong Private Retail Price Index	Good	455.85	450.57
	Base	505.02	538.81
	Bad	529.75	589.23
Hong Kong GDP YoY (%)	Good	5.00	4.21
	Base	2.77	2.59
	Bad	(4.50)	0.15

The assumptions used for ECL estimations for the wholesale exposure are as follows:

	Scenario	2024 Forward-looking (Year end)	5 years' average (2024-2028)
Hong Kong GDP (%)	Good	5.69	4.37
	Base	3.07	2.67
	Bad	(2.14)	0.41
China Unemployment Rate (%)	Good	3.37	3.63
	Base	3.97	3.97
	Bad	5.46	4.76
United States of America GDP (%)	Good	2.67	2.51
	Base	1.48	1.92
	Bad	0.70	1.44
China GDP (%)	Good	4.95	4.22
	Base	4.16	3.88
	Bad	(1.21)	1.78
United States of America Export (%)	Good	2.80	3.27
	Base	(0.18)	2.19
	Bad	(3.77)	1.03

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit Risk (Continued)

#### *Sensitivity analysis*

As at 31 December 2024 and 2023, sensitivity analysis is conducted for the impact of impairment allowance results against the forward-looking macroeconomic variables on the basis that (i) Good scenario weight increases by 10% and Base scenario weight is lowered by 10%; (ii) Bad scenario weight increases by 10% and Base scenario weight is lowered by 10% as follows:

	2024	2023
Good +10% and base - 10%	11,583	16,680
Bad +10% and base -10%	11,878	17,298

#### *Credit Risk Grading*

In order to fulfil the requirements of probability weighted forward-looking ECL, Point-in-Time ("PiT") PD is adopted in the ECL estimation. Both qualitative and quantitative criteria are considered while determining the approach for each product type. Two approaches are developed to capture the specific risk characteristics of products:

- **Z risk factor approach:** The PD is modelled based on the relationship between macroeconomic factors and Z factor. Z factor could be interpreted as credit cycle adjustment term to convert through-the-cycle historical PD into point-in-time PD. Detail technical definition would be discussed in later section. This approach would be more suitable for wholesale portfolio and commonly adopted among peer banks.
- **Vintage blending approach:** The idea of vintage blending approach is to derive a PD estimate through a certain combination of observed default rate ("ODR") at different observation time points, known as "vintage" here. It is a non-parametric approach which is distribution-free and the PD estimate is derived based on empirical data. This approach would be more suitable for retail portfolio that would have relatively more internal empirical default data comparing with wholesale portfolio which is also adopted in some peer leading banks. The data used would be mainly sourced from internal data with the aid of external data to support certain granularity in PD calibration.

#### *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 policies and procedures set out by the Risk Management Department ("RMD"). 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.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### **Credit Risk (Continued)**

#### ***Definition of Default***

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

#### ***Write-offs***

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

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

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit Risk (Continued)

#### *Credit Monitoring and Control (Continued)*

- Stage 2: if there has been a 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.

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: EIR

The above methodology for expected loss estimation should incorporate historical information, current conditions, as well as forward-looking information. Therefore, obtaining 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 2024 and 31 December 2023 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.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit Risk (Continued)

#### Exposure to Credit Risk (Continued)

	31 December 2024			
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
<b>Subject to ECL:</b>				
Cash and short-term deposits	2,413,040	-	-	2,413,040
Investment securities	4,561,229	-	-	4,561,229
Loans and advances	969,828	24,822	3,721	998,371
Other deposits and receivables	18,401	-	-	18,401

	31 December 2023			
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
<b>Subject to ECL:</b>				
Cash and short-term deposits	1,825,035	-	-	1,825,035
Investment securities	3,105,021	-	-	3,105,021
Loans and advances	635,581	36,514	3,840	675,935
Other deposits and receivables	12,097	-	-	12,097

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

#### Exposure to credit risk by class

Class	31 December 2024			31 December 2023		
	Net credit exposure	Credit enhance- ments	Adjusted Credit exposure	Net credit exposure	Credit enhance- ments	Adjusted Credit exposure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Subject to ECL:</b>						
Cash and short-term deposits	2,412,886	-	2,412,886	1,824,762	-	1,824,762
Investment securities	4,561,194	-	4,561,194	3,104,353	-	3,104,353
Loans and advances	987,224	-	987,224	660,074	-	660,074
Other deposits and receivables	18,401	-	18,401	12,097	-	12,097

## 27. 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 2024 in HK\$'000	AA	A	BBB	Total investment grade	Non- investment grade	Unrated	Total gross carrying amount	ECL allowance	Total carrying amount
<b>Subject to ECL:</b>									
Cash and short term deposits	562,406	930,182	709,403	2,201,991	211,049	-	2,413,040	(154)	2,412,886
Investment securities	2,115,767	1,985,058	460,404	4,561,229	-	-	4,561,229	(35)	4,561,194
Other deposits and receivables	-	-	-	-	-	18,401	18,401	-	18,401
<b>Total Subject to ECL</b>	<b>2,678,173</b>	<b>2,915,240</b>	<b>1,169,807</b>	<b>6,763,220</b>	<b>211,049</b>	<b>18,401</b>	<b>6,992,670</b>	<b>(189)</b>	<b>6,992,481</b>

At 31 December 2023 in HK\$'000	AA	A	BBB	Total investment grade	Non- investment grade	Unrated	Total gross carrying amount	ECL allowance	Total carrying amount
<b>Subject to ECL:</b>									
Cash and short term deposits	195,411	863,474	730,956	1,789,841	35,194	-	1,825,035	(273)	1,824,762
Investment securities	1,348,156	1,693,255	63,610	3,105,021	-	-	3,105,021	(668)	3,104,353
Other deposits and receivables	-	-	-	-	-	12,097	12,097	-	12,097
<b>Total Subject to ECL</b>	<b>1,543,567</b>	<b>2,556,729</b>	<b>794,566</b>	<b>4,894,862</b>	<b>35,194</b>	<b>12,097</b>	<b>4,942,153</b>	<b>(941)</b>	<b>4,941,212</b>

The table below shows gross carrying amount of loans and advances to retail customers by rating grade.

in HK\$'000	Pass	Special mention	Substandard or below	Total gross carrying amount	ECL allowance	Total carrying amount
At 31 December 2024	993,724	926	3,721	998,371	(11,147)	987,224
At 31 December 2023	671,519	576	3,840	675,935	(15,861)	660,074

## 27. 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*

	2024							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross		Gross		Gross		Gross	
	exposure	Allowance	exposure	Allowance	exposure	Allowance	exposure	Allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at 1 January</b>	<b>635,581</b>	<b>3,043</b>	<b>36,514</b>	<b>9,554</b>	<b>3,840</b>	<b>3,264</b>	<b>675,935</b>	<b>15,861</b>
Transfers:								
Transfer from Stage 1 to Stage 2	(21,051)	(5,479)	21,051	5,479	-	-	-	-
Transfer from Stage 2 to Stage 1	8,472	1,808	(8,472)	(1,808)	-	-	-	-
Transfer to Stage 3	(2,589)	(130)	(8,306)	(5,143)	10,895	5,273	-	-
Transfer from Stage 3	-	-	-	-	-	-	-	-
Net new financial assets originated (asset derecognised/repayment)	349,415	3,637	(15,965)	(3,434)	848	6,314	334,298	6,517
Amounts written off	-	-	-	-	(11,862)	(11,862)	(11,862)	(11,862)
Recoveries	-	-	-	-	-	506	-	506
Other movement	-	-	-	-	-	125	-	125
<b>Balance at 31 December</b>	<b>969,828</b>	<b>2,879</b>	<b>24,822</b>	<b>4,648</b>	<b>3,721</b>	<b>3,620</b>	<b>998,371</b>	<b>11,147</b>

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Credit Risk (Continued)

#### Expected credit loss allowance (Continued)

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

#### Loans and advances to customers (Continued)

	2023							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross		Gross		Gross		Gross	
	exposure	Allowance	exposure	Allowance	exposure	Allowance	exposure	Allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at 1 January</b>	944,975	2,173	20,650	3,819	1,002	887	966,627	6,879
Transfers:								
Transfer from Stage 1 to Stage 2	(54,093)	(24,185)	54,093	24,185	-	-	-	-
Transfer from Stage 2 to Stage 1	2,820	312	(2,820)	(312)	-	-	-	-
Transfer to Stage 3	(6,007)	(182)	(18,705)	(16,573)	24,712	16,755	-	-
Transfer from Stage 3	-	-	-	-	-	-	-	-
Net new financial assets originated (asset derecognised/repayment)	(252,114)	24,925	(16,704)	(1,565)	(618)	6,637	(269,436)	29,997
Amounts written off	-	-	-	-	(21,256)	(21,256)	(21,256)	(21,256)
Recoveries	-	-	-	-	-	241	-	241
<b>Balance at 31 December</b>	635,581	3,043	36,514	9,554	3,840	3,264	675,935	15,861

The changes in ECL on the investments in debt securities at amortised cost, financial investments measured at FVOCI and 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).



## 27. 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 approved by 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. 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. 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 requirement. On top of the regulatory LMR requirements, 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 maintains certain level of liquidity cushion such as Exchange Fund Bills to mitigate potential liquidity risk and meet liquidity needs during liquidity crisis.

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 conducts monthly liquidity stress tests based on institution specific, general market and combined stress scenarios defined according to the SPM LM-2. The results of the stress tests are used to identify potential liquidity vulnerabilities within the Group, to establish internal limits and to formulate the Contingency Funding Plan ("CFP").

The Group has formulated a 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.

## 27. 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 2024 and 31 December 2023. 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.

	On demand	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 1 year	More than 1 year	Total contractual cash flows	Total carrying amount
31 December 2024	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities							
Deposits from customers	429,024	1,719,990	3,797,477	1,065,449	-	7,011,940	6,966,060
Accruals and other payables	-	277,830	-	-	-	277,830	277,830
Lease liabilities	-	1,118	2,235	1,798	564	5,715	5,628
<b>Total financial liabilities</b>	<b>429,024</b>	<b>1,998,938</b>	<b>3,799,712</b>	<b>1,067,247</b>	<b>564</b>	<b>7,295,485</b>	<b>7,249,518</b>

	On Demand	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 1 year	More than 1 year	Total contractual cash flows	Total carrying amount
31 December 2023	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities							
Deposits from customers	291,963	800,318	1,623,373	1,892,126	-	4,607,780	4,555,308
Deposits from a related party	-	16,765	-	-	-	16,765	16,698
Accruals and other payables	-	53,802	-	-	-	53,802	53,802
Lease liabilities	-	1,136	2,291	8,881	5,748	18,056	17,424
<b>Total financial liabilities</b>	<b>291,963</b>	<b>872,021</b>	<b>1,625,664</b>	<b>1,901,007</b>	<b>5,748</b>	<b>4,696,403</b>	<b>4,643,232</b>

### Market Risk

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

The Group has established market risk management policy that outlines the market risk management framework according to the market risk appetite 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.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Market Risk (Continued)

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, 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. Internal Audit Department ("IAD") is responsible for third line of defence in market risk management.

The Group monitors the market risk exposures against various types of limit on aggregate or individual unit levels. The limits include Value-at-Risk ("VaR"), stress testing and position limit (e.g. net open position). The VaR limit is set up and reviewed by RC 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 authority. The risk methodology for VaR and stress testing is properly maintained and reviewed by RMC. The monitoring of the above limits are carried out on daily basis.

### 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:

	31 December 2024		31 December 2023	
	USD	RMB	USD	RMB
<b>Assets</b>				
Placements with and advances to banks	808,960	74,642	52,890	81,657
Investments in debt securities at amortised cost	344,604	26,732	720,496	193,524
Financial investments measured at FVOCI	863,570	347,254	-	-
Loans and advances	9,953	19,715	-	-
Other assets	8,947	3,054	1,092	6,517
<b>Total assets</b>	<b>2,036,034</b>	<b>471,397</b>	<b>774,478</b>	<b>281,698</b>
<b>Liabilities</b>				
Deposits from customers	1,687,347	470,227	418,863	270,328
Deposits from a related party	-	-	16,698	-
Accruals and other payables	6,783	4,219	1,452	7,762
Lease liabilities	-	205	-	1,417
<b>Total liabilities</b>	<b>1,694,130</b>	<b>474,651</b>	<b>437,013</b>	<b>279,507</b>

As the HKD is pegged to the USD, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

At 31 December 2024 and 31 December 2023, no sensitivity analysis is prepared as the management considered that the effect is insignificant due to the insignificant net position.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Market Risk (Continued)

#### *Interest rate risk*

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 be 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 approved by the Board and to comply with the regulatory requirements including but not limited to HKMA 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. Finance is responsible for preparation and submission of the regulatory reports. IAD is responsible for testing the effectiveness of the IRRBB risk management framework and system.

The Group measures and monitors IRRBB exposures from both the earnings and economic value perspective with two key risk control metrics, namely the change in the economic value of equity (" $\Delta$ EVE") and the change in net interest income (" $\Delta$ NII"). 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 (" $\Delta$ 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. For  $\Delta$ EVE and  $\Delta$ NII monitoring, they are calculated on a monthly basis. For PVBP measurement, it is calculated and monitored on a daily basis.

To hedge the IRRBB exposures, actions like market operations or balance sheet restructuring could be potential risk mitigations and when necessary, the mitigations will be discussed in ALCO with advice from various relevant units like RMD and Treasury for endorsement.

The Group adopts stress-testing techniques to regularly assess the vulnerability to losses due to interest rate change in the prescribed standard interest rate stress scenarios defined in the MA's SPM IR-1.

The application of a parallel shift in market interest rates of 100 basis points (2023: 100 basis points) increase or decrease to these positions, would result in a net gain or loss of approximately HK\$2,415,000 (2023: HK\$3,942,000).

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Fair value estimation

The following table present the carrying value of the Bank's financial assets recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

At 31 December 2024	Level 2 HK\$'000	Total HK\$'000
Financial investments measured at FVOCI		
- Debt securities	3,807,499	3,807,499
<b>Total</b>	<b>3,807,499</b>	<b>3,807,499</b>

Level 1: The fair value of financial instruments traded in active markets (e.g. publicly traded equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

For financial assets and financial liabilities not carried at fair value on the financial statements, the Bank has ascertained that their fair values were the reasonable approximation of the carrying amounts at year end due to short-term nature.

## 28 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 RMD 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 defining relevant tools, assessment matrix and methodology and mechanism and presenting the latest Operational Risk exposure to the Head of RMD 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.

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.

In connection with the management of Third Party Risk, the Group established relevant measure and control to outline the standard of risk assessment to avoid any undue additional operational risk when relying on a Third Party for the performance of an operational function or activity, particularly if process or service is critical to the Bank. The Third Party Risk Management Policy defines the methods by which the Group manages third party risks. It is to ensure the level security of the Bank's information and information assets are not being lower when sharing information with such third parties or by the introduction of third party products or services into the Bank environment. Such policy describes what processes must be in place before information asset can be released to the third party arrangement, and the mechanism for developing and maintaining contractual agreements with such third parties regarding their responsibilities on protecting Bank's information assets.

## 29. 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.

## 30. 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:

	2024 HK\$'000	2023 HK\$'000
Share capital	2,800,001	2,800,001
Accumulated losses	(2,073,557)	(1,798,281)
Financial assets at FVOCI reserve	(362)	-
Share based payment reserve	22,100	-
Exchange reserve	(1,119)	(845)
	747,063	1,000,875

## 31. 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:

	2024 HK\$'000	2023 HK\$'000
Salaries, bonuses and short-term employee benefits	49,021	59,981
Share-based payments	20,497	-

### 31. RELATED PARTY DISCLOSURES (CONTINUED)

#### Transactions with related parties

##### *Term deposit*

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

	2024		2023	
	Interest HK\$'000	Balance HK\$'000	Interest HK\$'000	Balance HK\$'000
Deposits from a related party (note 5)	726	-	452	16,698

The following transactions occurred with related parties:

	2024 HK\$'000	2023 HK\$'000
Prepaid expense	-	573
<b>Total</b>	-	573
<i>Accruals and other payables</i>		
Amount due to fellow subsidiaries	17,174	2,503
<b>Total</b>	17,174	2,503
<i>Infrastructure services and other fees</i>		
IT services paid to a fellow subsidiary	35,409	24,711
<b>Total</b>	35,409	24,711

#### *Property, plant and equipment and Intangible asset purchases*

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

	2024 HK\$'000	2023 HK\$'000
<i>Property, plant and equipment</i>		
Tencent cloud infrastructure	-	584
<b>Total</b>	-	584

### 32. Share-based payment

During the year, some employees were granted listed shares by Tencent Holdings. The fair value of the shares, amounting to HK\$22,100,000 (2023: nil), was based on the fair value of the listed share of Tencent Holdings at the grant date. The shares are fully vested upon issuance and a portion of the shares will be deferred according to the Remuneration Policy of the Bank.



### 33. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

#### (a) Statement of financial position

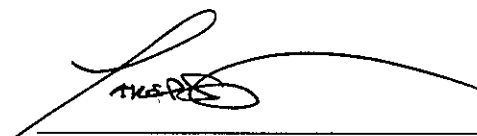
	2024 HK\$'000	2023 HK\$'000
<b>ASSETS</b>		
Balances with central bank	236,024	99,520
Placements with and advances to banks	2,172,709	1,721,625
Investments in debt securities at amortised cost	753,695	3,104,353
Financial investments measured at FVOCI	3,807,499	-
Loans and advances	987,224	660,074
Prepaid expenses	11,974	10,903
Other deposits and receivables	18,211	11,780
Investment in subsidiary	11,685	11,685
Right-of-use assets	5,469	14,645
Property, plant and equipment	3,568	23,306
Intangible assets	23,060	22,796
<b>TOTAL ASSETS</b>	<b>8,031,118</b>	<b>5,680,687</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits from customers	6,966,060	4,555,308
Deposits from a related party	-	16,698
Accruals and other payables	306,923	87,858
Lease liabilities	5,423	16,007
<b>TOTAL LIABILITIES</b>	<b>7,278,406</b>	<b>4,675,871</b>
<b>EQUITY</b>		
Share capital	2,800,001	2,800,001
Accumulated losses	(2,069,027)	(1,795,185)
Financial assets at FVOCI reserve	(362)	-
Share based payment reserve	22,100	-
<b>Equity attributable to owners of the bank</b>	<b>752,712</b>	<b>1,004,816</b>
<b>TOTAL EQUITY</b>	<b>752,712</b>	<b>1,004,816</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,031,118</b>	<b>5,680,687</b>

The statement of financial position of the Bank was approved by the Board of Directors and authorised for issue on 25 April 2025:

Signed on behalf of the Board



PU, HAI TAO  
DIRECTOR



SHU, JARED  
DIRECTOR

### 33. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (CONTINUED)

#### (b) Reserve movement of the bank

	Accumulated losses HK\$'000	Financial assets at FVOCI reserve HK\$'000	Share based payment reserve HK\$'000
<b>At 1 January 2023</b>	(1,387,599)	-	-
Loss for the year	(407,586)	-	-
<b>At 31 December 2023 and 1 January 2024</b>	(1,795,185)	-	-
Loss for the year	(273,842)	-	-
Other comprehensive income	-	(362)	-
Share based payment	-	-	22,100
<b>At 31 December 2024</b>	(2,069,027)	(362)	22,100

### 34. Dividends

No dividend was paid or proposed for the year ended 31 December 2024 and 31 December 2023.

### 35. Subsequent event

Share capital increased HK\$800,000,000 after the reporting period. This funding is to support the business growth of the Group.

### 36. Approval of financial statements

The financial statements were approved by the board of directors on 25 April 2025.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

*Year ended 31 December 2024*

### 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.
- RC is responsible for monitoring climate-related issues and deliberating proposed actions for the Board's decision making.
- RMC is a management-level committee, chaired by Head of Risk Management, 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 business scale, 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 the Bank's culture and conduct) approach which is aligned with the Bank's strategy for the management of climate-related risks and opportunities.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

### 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	<p>The Bank may lose its competitiveness and market standing due to the following:</p> <ul style="list-style-type: none"><li>• fail to develop necessary risk management capabilities to capture new business opportunities arising from climate change</li><li>• fail to appropriately incorporate impacts associated with climate change into its risk management framework, leading to inappropriate pricing or risk appetite</li><li>• 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)</li></ul>
Reputational risk	<p>The Bank's reputation will be adversely affected if:</p> <ul style="list-style-type: none"><li>• it is unable to follow industry and regulatory actions to implement climate risk measures</li><li>• 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</li><li>• it is identified having greenwashing activities</li></ul>

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

### CLIMATE CHANGE RELATED DISCLOSURE (CONTINUED)

#### Strategy (Continued)

Risk type	Climate related risk
Credit risk	<p>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.</p> <p>Physical risk drivers mainly impact the Bank's 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.</p> <p>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.</p>
Market risk	<p>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.</p> <p>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.</p>
Liquidity risk	<p>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.</p> <p>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.</p>

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

### CLIMATE CHANGE RELATED DISCLOSURE (CONTINUED)

#### Strategy (Continued)

Risk type	Climate related risk
Operational risk	<p>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.</p> <p>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.</p>
Legal and compliance risk	<p>The Bank may face litigation for 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.</p>

#### 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.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED) (CONTINUED)

### CLIMATE CHANGE RELATED DISCLOSURE (CONTINUED)

#### **Strategy (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.