Report of the Directors and Audited Financial Statements

ANT BANK (HONG KONG) LIMITED
螞蟻銀行（香港）有限公司

31 December 2022

ANT BANK (HONG KONG) LIMITED

CONTENTS

ANT BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2022.

Principal place of business
Ant Bank (Hong Kong) Limited (the "Bank") is a limited liability company incorporated and domiciled in Hong Kong and has its registered office at Suites 2312-13, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

Principal activities
The principal activities of the Bank are the provision of banking services to its customers. The Bank is a licensed bank registered under the Hong Kong Banking Ordinance.

Share capital
Details of the Bank's share capital during the year are set out in note 15 to the financial statements.

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

Executive directors
Leung Yin Fan Yvonne

Non-executive directors
Chen Leiming
Shi Wenyi
Lam Wai Chung Gordon *
Wang Qing *
Zee John *

* Independent non-executive directors

There being no provision in the Bank's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

Directors' interests
Pursuant to the share option schemes of the Bank's ultimate holding company and its fellow subsidiary, one of the directors of the Bank has been granted share-based payment awards.

During the year, none of the directors have exercised the Share Economic Interest Rights ("SERs"), Restricted Share Units ("RSUs") and Share Appreciation Right ("SAR") of the ultimate holding company and the fellow subsidiary. At the end of the reporting period, there were share options outstanding in respect of the abovementioned share-based payment awards granted by the fellow subsidiary to one of the directors of the Bank.

Further details of the share option schemes of the Bank's ultimate holding company and its fellow subsidiary are set out in note 16 to the financial statements.

Save as disclosed above, at no time during the year was the Bank or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the Bank's directors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Directors' interests in transactions, arrangements or contracts
No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Bank to which the Bank or any of the Bank's holding companies or fellow subsidiaries was a party during the year.

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

Compliance with the Banking (Disclosure) Rules
The Bank has fully complied with the requirements set out in the Banking (Disclosure) Rules under the Hong Kong Banking Ordinance.

Auditors
Ernst & Young retire and a resolution for their reappointment as auditors of the Bank will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

....
Chen Leiming
Director

Hong Kong
21 April 2023

EY 安永

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Independent auditor's report
To the member of Ant Bank (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Ant Bank (Hong Kong) Limited (the "Bank") set out on pages 6 to 31, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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 financial statements* section of our report. We are independent of the Bank in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report (continued)
To the member of Ant Bank (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

EY 安永

Independent auditor's report (continued)
To the member of Ant Bank (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Ernst & Young

Certified Public Accountants
Hong Kong
21 April 2023

ANT BANK (HONG KONG) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Interest income		19,625	2,020
Interest expense		(4,698)	(7,521)
NET INTEREST INCOME/(EXPENSE)	4	14,927	(5,501)
Net foreign exchange differences		1,925	3,710
Other income		16	5
Administrative expenses	5	(218,870)	(231,880)
Net (charge)/reversal of impairment allowances	6	(1,203)	1,271
LOSS BEFORE TAX		(203,205)	(232,395)
Income tax expense	8	-	-
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(203,205)	(232,395)

ANT BANK (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
ASSETS			
Balances with banks	9	702,171	1,330,154
Loans and advances to customers	10	46,707	545
Financial investments	11	668,474	622,487
Intangible assets	12	25,999	35,748
Prepayments and other receivables		111	4
TOTAL ASSETS		1,443,462	1,988,938
LIABILITIES			
Deposits from customers	13	353,860	740,862
Amounts due to fellow subsidiaries and other related parties	17(a)	41,196	26,952
Other payables and accruals		31,810	24,491
TOTAL LIABILITIES		426,866	792,305
NET ASSETS		1,016,596	1,196,633
EQUITY			
Share capital	15	1,563,510	1,563,510
Reserves		(546,914)	(366,877)
TOTAL EQUITY		1,016,596	1,196,633

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Chen Leiming
Director

....
Leung Yin Fan Yvonne
Director

ANT BANK (HONG KONG) LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Notes	Share capital HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2021		784,870	41,711	(209,268)	617,313
Issue of shares	15	778,640	-	-	778,640
Loss and total comprehensive income for the year		-	-	(232,395)	(232,395)
Share-based payments	16	-	33,075	-	33,075
At 31 December 2021 and 1 January 2022		1,563,510	74,786	(441,663)	1,196,633
Loss and total comprehensive income for the year		-	-	(203,205)	(203,205)
Share-based payments	16	-	23,168	-	23,168
At 31 December 2022		1,563,510	97,954	(644,868)	1,016,596

ANT BANK (HONG KONG) LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 HK$	2021 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(203,205)	(232,395)
Adjustments for:			
Unrealised foreign exchange differences		(1,925)	(3,710)
Share-based payment expense	5, 16	23,290	33,075
Amortisation of intangible assets	12	9,749	9,749
Net charge/(reversal) of impairment allowances	6	1,203	(1,271)
Operating cash flows before changes in operating assets and liabilities		(170,888)	(194,552)
Changes in operating assets and liabilities:			
Placements with banks with an original maturity beyond three months but less than one year		40,000	(70,109)
Certificate of deposit with an original maturity beyond three months		80,364	(388,996)
Financial investments		27,826	(77,719)
Loans and advances to customers		(47,155)	(550)
Prepayments and other receivables		(107)	648
Deposits from customers		(387,001)	7,326
Amounts due to fellow subsidiaries and other related parties		14,244	13,554
Other payables and accruals		7,196	(2,867)
Net cash used in operating activities		(435,521)	(713,265)
CASH FLOWS FROM A FINANCING ACTIVITY			
Proceeds from issue of shares	15	-	778,640
Net cash generated from a financing activity		-	778,640
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(435,521)	65,375
Cash and cash equivalents at beginning of year		1,416,088	1,347,003
Net foreign exchange difference		1,925	3,710
CASH AND CASH EQUIVALENTS AT END OF YEAR		982,492	1,416,088
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Balances with central bank and banks	9	334,762	1,053,035
Placements with banks with original maturity of three months or less when acquired	9	337,571	207,139
Certificates of deposit with original maturity within three months	11	310,159	155,914
Cash and cash equivalents in the statement of cash flows		982,492	1,416,088
CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		17,947	1,841
Interest paid		4,716	7,521

1. CORPORATE INFORMATION

Ant Bank (Hong Kong) Limited (the "Bank") is a limited liability company incorporated in Hong Kong on 16 August 2018. The banking license was approved and obtained on 9 May 2019. The registered office of the Bank is located at Suites 2312-13, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The principal activities of the Bank are provision of banking services to its customers. The Bank is a licensed bank registered under the Hong Kong Banking Ordinance.

The Bank's immediate holding company is Alipay (Hong Kong) Investment Limited, a limited liability company incorporated in Hong Kong, and the Bank's ultimate holding company is Ant Group Co., Ltd., a company established in the People's Republic of China ("PRC").

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Bank has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts - Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Bank has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Bank.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Bank has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Bank.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Bank has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Bank.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Bank are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Bank has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Bank's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Bank.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Bank has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 3]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion.

Further information about those HKFRSs that are expected to be applicable to the Bank is described below.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Bank's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Bank is currently assessing the impact of the amendments. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Bank's financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Bank is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Bank's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Bank's financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties
A party is considered to be related to the Bank if:

(a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Bank;
- (ii) has significant influence over the Bank; or
- (iii) is a member of the key management personnel of the Bank or of a parent of the Bank;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Bank are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Bank are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

Intangible assets
Intangible assets include purchased software. Purchased software is stated at cost less accumulated amortisation and impairment.

Software is recognised when it is separable or arise from contractual or other legal rights, and it is probable that future economic benefits will flow to the Bank, the cost of which can be measured reliably. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets with finite useful lives are amortised over the shorter of the license period or 5 years on a straight-line basis. Amortisation are recognised as an expense in the month when the asset is available for use. The intangible assets are subject to impairment testing, and both the period and method of amortisation are reviewed annually.

Impairment of non-financial assets
The Bank assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the Bank makes an estimate of the asset's recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to profit or loss in the year in which it arises.

Financial assets
All financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Bank commits to purchase or sell the assets.

(a) Classification and measurement
Financial assets are measured at amortised cost using the effective interest rate method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

(b) Impairment
The Bank applies the expected credit loss model on all the financial assets that are subject to impairment. For trade receivables and contract assets without a significant financial component, the Bank applies the simplified approach which requires impairment allowances to be measured at lifetime expected credit losses.

For other financial assets, impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Bank is required to provide for credit losses that result from possible default events within the next 12 months as Stage 1. For those credit exposures where there has been a significant increase in credit risk since initial recognition or the repayment is more than 30 days past due, a loss allowance as Stage 2 is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default.

Lifetime expected credit losses will be recognised for credit-impaired financial instruments as Stage 3 if the Bank considers that a default has occurred or the repayment is more than 90 days past due. Interest income will then be accrued net of the impairment amount of the respective Stage 3 financial assets.

(c) Derecognition
Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Bank has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with banks, placements with banks with original maturity of three months or less when acquired and certificate of deposits with original maturity of three months or less.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Bank operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Bank has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Net interest income arising from financial instruments

Interest income for financial assets held at amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

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 expected life of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate for financial instruments other than credit impaired assets, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider expected credit losses. The calculation of effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability and all other premiums or discounts.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
Net interest income arising from financial instruments (continued)
Interest income for financial assets that are held at amortised cost that have become credit impaired subsequent to initial recognition (stage 3) and have had amounts written off, is recognised using the credit adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognised on the amortised cost of the financial asset including expected credit losses. Should the credit risk on a stage 3 financial asset improve such that the financial asset is no longer considered credit impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

Employee benefits
(a) Bonus
Provisions for bonus plans are recognised when the Bank has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

The Bank recognises a liability and an expense for bonuses, with reference to the performance of the Bank. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for bonus plans that are expected to be settled within twelve months are measured at the amounts expected to be paid when they are settled.

(b) Retirement benefit costs
The Bank operates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Bank in an independently administered fund. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as and when the contributions fall due.

(c) Share-based payment
The Bank's ultimate holding company operates several equity-settled and cash-settled share option schemes for the purpose of providing incentives and rewards to eligible participants including certain employees (including directors) of the Bank.

Where share-based payment awards are awarded to employees, the fair value of the awards at the date of grant is charged to profit or loss over the vesting period, with a corresponding increase in equity as a contribution from the ultimate holding company. At the end of each reporting period, the Bank revises its estimates of the number of awards that are expected to become vested. The impact of the revision of original estimates is recognised in profit or loss and a corresponding adjustment is made to the contribution from the ultimate holding company over the remaining vesting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(c) Share-based payment (continued)

The cost of cash-settled transactions is measured initially at fair value at the grant date, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the statement of profit or loss.

Foreign currencies

Transactions in foreign currencies are translated into the functional currency of the Bank using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Useful lives of intangible assets

Amortisation are provided to write down assets to their residual values over their estimated useful lives. The determination of these residual values and estimated lives, and any change to the residual values or estimated lives, requires the exercise of management judgement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are disclosed in note 14 to the financial statements.

4. NET INTEREST INCOME/(EXPENSE)

	2022 HK$'000	2021 HK$'000
Interest income arising from financial assets at amortised cost	19,625	2,020
Interest expense arising from financial liabilities at amortised cost	(4,698)	(7,521)
Net interest income/(expense)	14,927	(5,501)

5. ADMINISTRATIVE EXPENSES

	Notes	2022 HK$'000	2021 HK$'000
Staff costs (a):			
Salaries and others	16	100,126	107,733
Defined contribution pension scheme contributions		2,276	2,127
Server and technical service fees		64,154	81,029
Rental expenses	17(b)	11,774	11,464
Legal and professional fees		9,428	2,645
Amortisation of intangible assets	12	9,749	9,749
Auditor's remuneration		966	712
Other expenses		20,397	16,421
		218,870	231,880

Note (a): Staff costs include directors' remuneration (note 7).

6. NET (CHARGE)/REVERSAL OF IMPAIRMENT ALLOWANCES

	Notes	2022 HK$'000	2021 HK$'000
Balances with banks	9	(141)	1,418
Loans and advances to customers	10	(993)	(5)
Financial investments	11	(69)	(142)
		(1,203)	1,271

7. DIRECTORS' REMUNERATION

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

	2022 HK$'000	2021 HK$'000
Fees	1,440	1,440
Other emoluments (a)	3,884	8,470
	5,324	9,910

Note (a): Included in other emoluments is a defined contribution pension scheme contribution of HK$82,000 (2021: HK$101,000).

During the years ended 31 December 2022 and 2021, share-based payment awards were granted by the Bank's related parties to certain directors in respect of their services rendered to the Bank. Further details of awards granted are set out in note 16 to the financial statements. The fair value of such awards has been recognised in profit or loss over the vesting period and was determined as at the date of grant. The amount included in the financial statements for current year is included in above directors' remuneration disclosures.

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Bank did not generate any assessable profits arising in Hong Kong during the year (2021: Nil).

A reconciliation of the tax expense applicable to loss before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2022 HK$'000	2021 HK$'000
Loss before tax	(203,205)	(232,395)
Tax at the statutory tax rate of 16.5%	(33,529)	(38,345)
Income not subject to tax	(315)	(612)
Expenses not deductible for tax	3,843	5,542
Tax losses not recognised	30,001	33,415
Income tax expense	-	-

9. BALANCES WITH BANKS

	2022 HK$'000	2021 HK$'000
Balances with central bank	40,592	491,647
Balances with banks	294,170	561,388
Placements with banks with original maturity of three months or less when acquired	337,571	207,139
Placements with banks with an original maturity beyond three months but less than one year	30,108	70,109
	702,441	1,330,283
Less: Allowances for expected credit losses - Stage 1	(270)	(129)
	702,171	1,330,154

The movement in allowances for expected credit losses is as follows:

	2022 HK$'000	2021 HK$'000
At beginning of year - Stage 1	129	1,547
Net charge/(reversal) of impairment allowances	141	(1,418)
At end of year	270	129

10. LOANS AND ADVANCES TO CUSTOMERS

	2022 HK$'000	2021 HK$'000
Loans and advances to customers	47,705	550
Less: Allowances for expected credit losses	(998)	(5)
	46,707	545

The movement in allowances for expected credit losses is as follows:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2021	-	-	-	-
Net charge of impairment allowances	5	-	-	5
At 31 December 2021 and 1 January 2022	5	-	-	5
Net charge of impairment allowances	851	38	104	993
At 31 December 2022	856	38	104	998

11. FINANCIAL INVESTMENTS

	2022 HK$'000	2021 HK$'000
At amortised cost:		
Debt securities (a)	668,685	622,629
Less: Allowances for expected credit losses - Stage 1	(211)	(142)
	668,474	622,487

Note (a): Certificates of deposit with original maturity within three months amounting to HK$310,159,000 (2021: HK$155,914,000) have been included in the above debt securities balances.

The movement in allowances for expected credit losses is as follows:

	2022 HK$'000	2021 HK$'000
At beginning of year - Stage 1	142	-
Net charge of impairment allowances	69	142
At end of year	211	142

12. INTANGIBLE ASSETS

	Software HK$'000
Cost at 1 January 2021, net of accumulated amortisation	-
Additions	45,497
Amortisation provided during the year	(9,749)
At 31 December 2021	35,748
At 31 December 2021 and 1 January 2022	
Cost	48,747
Accumulated amortisation	(12,999)
Net carrying amount	35,748
Cost at 1 January 2022, net of accumulated amortisation	35,748
Amortisation provided during the year	(9,749)
At 31 December 2022	25,999
At 31 December 2022	
Cost	48,747
Accumulated amortisation	(22,748)
Net carrying amount	25,999

13. DEPOSITS FROM CUSTOMERS

	2022 HK$'000	2021 HK$'000
Savings deposits	353,860	740,862

14. DEFERRED TAX

Deferred tax assets and liabilities recognised
The components of deferred tax (assets)/liabilities recognised in the statement of financial position and the movements during the year are as follows:

	Amortisation of intangible assets HK$'000	Impairment allowance HK$'000	Unused tax losses HK$'000	Total HK$'000
At 1 January 2021	7,507	-	(7,507)	-
Recognised in profit or loss	5,898	-	(5,898)	-
At 31 December 2021 and 1 January 2022	13,405	-	(13,405)	-
Recognised in profit or loss	(9,115)	(244)	9,359	-
At 31 December 2022	4,290	(244)	(4,046)	-

Deferred tax assets not recognised
As at 31 December 2022, the Bank has estimated tax losses arising in Hong Kong of approximately HK$578,232,000 (2021: HK$407,339,000) that are available indefinitely for offsetting against its future taxable profits.

Except for the amount disclosed in the table above, deferred tax assets have not been recognised in respect of these losses as the Bank has been loss-making and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. The estimated tax loss in respect of the year of assessment 2021/22 has not yet been confirmed by the Hong Kong Inland Revenue Department.

15. SHARE CAPITAL

	2022		2021	
	Number of shares	HK$'000	Number of shares	HK$'000
Ordinary shares, issued and fully paid				
At beginning of year	200,000,000	1,563,510	100,000,001	784,870
Issuance of shares (a)	-	-	99,999,999	778,640
At end of year	200,000,000	1,563,510	200,000,000	1,563,510

Note (a): On 26 October 2021, 99,999,999 ordinary shares of US$1 each were issued to the existing shareholder of the Bank, which resulted in proceeds of approximately HK$778,640,000.

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

16. SHARE OPTION SCHEMES

The following table lists the total fair value of share option schemes for the years ended 31 December 2022 and 2021:

	2022	2021
Granted during the year	29,221,529	42,054,829
Vested during the year	24,632,286	25,566,272
Replaced/forfeited during the year	19,593,705	23,983,204
Average remaining life (years)	4.72	4.79

The fair values of SERs, RSUs, SAR, Alibaba RSUs and GRUs were determined at the grant date using the binomial option-valuation model. The following table lists the inputs to the pricing models for the years ended 31 December 2022 and 31 December 2021:

	2022	2021
Risk free interest rate	2.51% - 2.72%	2.78% - 3.16%
Expected dividend yield	0%	0%
Expected life (years)	6.00	6.00
Expected volatility	24.80% - 26.06%	24.37% - 24.87%

Management estimated the equity volatility based on the average historical volatility of the comparable companies with a term commensurate with the time to expiration date as of the valuation dates.

Share Economic Interest Rights ("SERs")
Since 2014, Hangzhou Junhan Equity Investment Partnership ("Junhan") made a grant of Share Economic Interest Rights ("SERs") similar to share-appreciation awards linked to the valuation of Ant Group Co., Ltd. ("Ant Group") to employees of the Bank. The vesting of SERs is conditional upon the fulfilment of requisite service conditions to the Bank, and SERs will be settled by Junhan according to the SERs plan. Junhan has the right to repurchase the vested awards from the holders upon certain conditions.

During the year, the Bank reversed share-based payment expense of HK$145,000 (2021: a reversal of HK$3,918,000) in connection with the above SERs.

Restricted Share Units ("RSUs")
In 2018, Ant Group adopted the 2018 Equity Incentive Plan (the "2018 Plan"). A fellow subsidiary, Ant International Co., Limited ("Ant International") was established to hold the 2018 Plan. Some employees were granted RSUs. The fair value of RSUs at the grant date was based on the fair value of an ordinary share of Ant Group. The vesting of RSUs is conditional upon the fulfilment of requisite service conditions to the Bank and RSUs will be settled by Ant International according to the RSUs plan.

During the year, the Bank recognised share-based payment expense of HK$14,011,000 (2021: HK$16,014,000) in connection with the above RSUs.

16. SHARE OPTION SCHEMES (continued)

Share Appreciation Right ("SAR")
According to the 2018 Equity Incentive Plan (the "2018 Plan"), some employees were granted SAR by Ant International. The fair value of SAR at the grant date was based on the fair value of an ordinary share of Ant Group. The vesting of SAR is conditional upon the fulfilment of requisite service conditions to the Bank and SAR will be settled by Ant International according to the SAR plan.

During the year, the Bank recognised share-based payment expense of HK$8,824,000 (2021: HK$19,126,000) in connection with the above SAR.

Alibaba Restricted Share Units ("Alibaba RSUs")
Some employees were granted Alibaba RSUs by Alibaba Group Holding Limited. The fair values of Alibaba RSUs are the fair value of the underlying stock of Alibaba Group Holding Limited. The vesting of Alibaba RSUs is conditional upon the fulfilment of requisite service conditions to the Bank.

During the year, the Bank recognised share-based payment expense of HK$478,000 (2021: HK$1,853,000) in connection with the above Alibaba RSUs.

Growth Rewards Units ("GRUs")
According to the 2021 equity incentive plan ("2021 plan"), some employees were granted GRUs by the Ant Group. The vesting of GRUs is conditional upon the fulfilment of requisite service conditions by the employee to the Bank. The value of GRUs is linked to the fair value of an ordinary share of Ant Group. Since GRUs shall be settled using cash of the subsidiaries of Ant Group according to the fair value of GRUs at exercise date, GRUs were recognised as cash-settled share-based payments.

During the year, the Bank recognised share-based payment expense of HK$122,000 (2021: HK$23,000) in connection with the above GRUs.

17. RELATED PARTY TRANSACTIONS

(a) The Bank had the following outstanding balances due to fellow subsidiaries and other related parties:

	2022 HK$'000	2021 HK$'000
Taobao China Holding Limited	16,259	6,812
Alipay (Hangzhou) Information Technology Co., Ltd.	18,281	18,108
Alibaba Cloud (Singapore) Private Limited	3,063	180
Alipay Financial Services (HK) Limited	2,351	1,738
Alipay Payment Services (HK) Limited	744	110
Alipay (Hong Kong) Holding Limited	497	-
Alibaba.com Singapore E-Commerce Private Limited	-	2
Alipay (China) Internet Technology Co., Ltd.	1	1
阿里巴巴（中国）网络技术有限公司	-	1
	41,196	26,952

The amounts due to fellow subsidiaries and other related parties are unsecured, interest-free and repayable within 12 months.

17. RELATED PARTY TRANSACTIONS (continued)

(b) The Bank had the following transactions with the related parties during the year:

	Notes	2022 HK$'000	2021 HK$'000
Administrative expenses paid to:			
Alibaba Cloud (Singapore) Private Limited	(i)	39,547	31,843
Alipay (Hangzhou) Information Technology Co., Ltd.	(ii)	31,667	57,404
Taobao China Holding Limited	(iii)	11,774	11,464
Alipay Financial Services (HK) Limited		613	704
Alipay Payment Services (HK) Limited		634	1,143
Alipay (Hong Kong) Holding Limited		497	-
Alibaba.com Singapore E-Commerce Private Limited		-	570
阿里巴巴（中国）网络技术有限公司		-	5
		84,732	103,133

Notes:

(i) The software support services provided by the related party were made on terms mutually agreed between the Bank and the related party.

(ii) The IT system and software support services provided by the related party were based on the direct costs incurred plus a margin, depending on the nature and location of the services performed.

(iii) The premises fee charged by the related party was based on the actual usage of the premises.

(c) Compensation of key management personnel of the Bank

	2022 HK$'000	2021 HK$'000
Short-term employee benefits	7,569	9,380
Pension scheme contributions	284	314
Share-based payments	4,905	10,084
	12,758	19,778

Further details of directors' remunerations are disclosed in note 7 to the financial statements.

18. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Bank's exposure to credit, liquidity, interest rate and currency risks arises in the normal course of its business. These risks are managed by the Bank's financial management policies and practices described below:

Credit risk
Credit risk is the risk of financial loss to the Bank if a counterparty of a financial instrument fails to meet its obligations, and arise principally from banks and other financial institutions.

All the Bank's balances with banks are held in major financial institutions located in Hong Kong, which management believes are of high credit quality. All the Bank's financial investments are issued by financial institutions at investment grade. The Bank has no significant concentration of credit risk. There are no financial assets that are past due or impaired.

<u>Expected credit loss ("ECL")</u>
HKFRS 9 requires an impairment model that calculates the recognition of ECL on all financial debt instruments held at amortised cost, fair value through other comprehensive income, undrawn loan commitments and financial guarantees. ECL is computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

<u>The internal rating and probability of defaults ("PDs") estimation process</u>
The bank operates its internal rating models for its key portfolios in which its customers are rated or assigned to specific internal grades or risk pools. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. The Bank adjusts the PDs to incorporate forward looking information and the HKFRS 9 stage classification of the exposure to determine the PDs for ECL calculations. This is repeated for each economic scenario as appropriate. Loans and advances to customers mainly comprise retail loans and corporate loans. These products are rated based on the models.

<u>Maximum exposure and year-end staging</u>
The tables below show the credit quality and the maximum exposure to credit risk based on the Bank's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2022 and 2021. The amounts presented are gross carrying amounts for financial assets.

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
<u>At 31 December 2022</u>				
Balances with banks	702,441	-	-	702,441
Loans and advances to customers	47,464	134	107	47,705
Financial investments	668,685	-	-	668,685
	1,418,590	134	107	1,418,831
<u>At 31 December 2021</u>				
Balances with banks	1,330,283	-	-	1,330,283
Loans and advances to customers	550	-	-	550
Financial investments	622,629	-	-	622,629
	1,953,462	-	-	1,953,462

18. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Liquidity risk
The Bank aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Bank finances its working capital requirements through balances with banks.

The tables below summarise the maturity profile of the Bank's non-derivative financial liabilities at 31 December 2022 and 2021 based on the contractual undiscounted cash flows:

	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000
At 31 December 2022				
Deposits from customers	351,260	351,260	-	-
Amounts due to fellow subsidiaries and other related parties	41,196	-	41,196	-
Financial liabilities included in other payables and accruals	14,210	-	14,210	-
	406,666	351,260	55,406	-
At 31 December 2021				
Deposits from customers	740,862	740,862	-	-
Amounts due to fellow subsidiaries and other related parties	26,952	-	26,952	-
Financial liabilities included in other payables and accruals	9,286	-	9,286	-
	777,100	740,862	36,238	-

Interest rate risk
As at 31 December 2022, the Bank has placements with banks, loans and advances to customers, financial investments and deposits from customers with fixed interest rates and the interest rate risk is considered to be minimal.

Currency risk
The Bank has no significant foreign currency risk because most of the transactions are denominated in the Bank's functional currency and United States dollars. Since the Hong Kong dollar is pegged to the United States dollars, the Bank's exposure to foreign currency risk in respect of the financial instruments denominated in United States Dollars is considered to be minimal.

Fair value measurement
The carrying amounts of the Bank's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2022 and 2021.

18. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Capital management

The Bank's primary objectives when managing its capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, and to secure access to finance at a reasonable cost.

The HKMA sets out capital requirements for the Bank. In implementing current capital requirements, the HKMA requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted amount. The Bank calculates its capital adequacy ratios in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between maximising return on capital with higher borrowing level, and the advantages of a higher capital level, and adjusts the capital level and structure in light of changes in economic conditions and business opportunities. The Bank engaged in banking activities is regulated by the HKMA. The capital management function is undertaken by the Asset and Liability Management Committee and is reviewed regularly by the board of directors.

19. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2023.