

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 2021

ANT BANK (HONG KONG) LIMITED

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# 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 2021.

### 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 movements in the Bank’s share capital during the year, together with the reasons therefor, are set out in note 14 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 | (appointed on 3 November 2021) |
| Wang Lan             | (resigned on 3 November 2021)  |

#### *Non-executive directors*

|                        |                             |
|------------------------|-----------------------------|
| Chen Leiming           |                             |
| Shi Wenyi              | (appointed on 22 July 2021) |
| Yu Shengfa             | (resigned on 22 July 2021)  |
| 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, two of the directors of the Bank have 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 15 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.

ANT BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS (continued)

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.

Events after the reporting period

Details of the Bank's significant events after the reporting period are set out in note 19 to the financial statements.

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  
31 March 2022



Ernst & Young  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay, Hong Kong

安永會計師事務所  
香港鰂魚涌英皇道979號  
太古坊一座27樓

Tel 電話: +852 2846 9888  
Fax 傳真: +852 2868 4432  
ey.com

**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 29, which comprise the statement of financial position as at 31 December 2021, 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 2021, 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, 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.

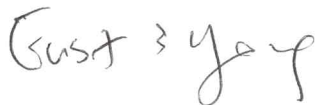


**Independent auditor's report** (continued)  
**To the member of Ant Bank (Hong Kong) Limited**  
(Incorporated in Hong Kong with limited liability)

**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.



Certified Public Accountants  
Hong Kong  
31 March 2022

ANT BANK (HONG KONG) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

|  | Notes | 2021<br>HK\$'000        | 2020<br>HK\$'000        |
|--|-------|-------------------------|-------------------------|
| Interest income  |       | 2,020                   | 7,027                   |
| Interest expense   |       | <u>(7,521)</u>          | <u>(1,820)</u>          |
| NET INTEREST (EXPENSE) / INCOME                                  | 4     | (5,501)                 | 5,207                   |
| Net foreign exchange differences                                 |       | 3,710                   | (3,253)                 |
| Other income   |       | 5                       | -                       |
| Administrative expenses  | 5     | (231,880)               | (171,931)               |
| Net reversal / (charge) of impairment allowances                 | 6     | <u>1,271</u>            | <u>(1,547)</u>          |
| LOSS BEFORE TAX  |       | (232,395)               | (171,524)               |
| Income tax expense   | 8     | <u>-</u>                | <u>-</u>                |
| LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE<br>INCOME FOR THE YEAR |       | <u><u>(232,395)</u></u> | <u><u>(171,524)</u></u> |



ANT BANK (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2021

|   | Notes | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>ASSETS</b>   |       |                  |                  |
| Balances with banks   | 9     | 1,330,154        | 1,345,456        |
| Loans and advances to customers                                 | 10    | 545              | -                |
| Financial investments   | 11    | 622,487          | -                |
| Intangible assets   | 12    | 35,748           | 45,497           |
| Prepayment  |       | 4                | 652              |
| <b>TOTAL ASSETS</b>   |       | <b>1,988,938</b> | <b>1,391,605</b> |
| <b>LIABILITIES</b>  |       |                  |                  |
| Deposits from customers   |       | 740,862          | 733,536          |
| Amounts due to fellow subsidiaries<br>and other related parties | 16(a) | 26,952           | 13,398           |
| Other payables and accruals                                     |       | 24,491           | 27,358           |
| <b>TOTAL LIABILITIES</b>  |       | <b>792,305</b>   | <b>774,292</b>   |
| <b>NET ASSETS</b>   |       | <b>1,196,633</b> | <b>617,313</b>   |
| <b>EQUITY</b>   |       |                  |                  |
| Share capital   | 14    | 1,563,510        | 784,870          |
| Reserves  |       | (366,877)        | (167,557)        |
| <b>TOTAL EQUITY</b>   |       | <b>1,196,633</b> | <b>617,313</b>   |

.....  
Chen Leiming  
Director

.....  
Leung Yin Fan Yvonne  
Director

ANT BANK (HONG KONG) LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

|   | Notes | Share<br>capital<br>HK\$'000 | Share-based<br>payment<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|-------|------------------------------|---|-----------------------------------|-------------------|
| At 1 January 2020                                   |       | 784,870                      | 8,177   | (37,744)                          | 755,303           |
| Loss and total comprehensive<br>Income for the year |       | -                            | -   | (171,524)                         | (171,524)         |
| Share-based payments                                | 15    | <u>-</u>                     | <u>33,534</u>                                 | <u>-</u>                          | <u>33,534</u>     |
| At 31 December 2020 and<br>1 January 2021           |       | 784,870                      | 41,711  | (209,268)                         | 617,313           |
| Issue of shares                                     | 14    | 778,640                      | -   | -                                 | 778,640           |
| Loss and total comprehensive<br>income for the year |       | -                            |   | (232,395)                         | (232,395)         |
| Share-based payments                                | 15    | <u>-</u>                     | <u>33,075</u>                                 | <u>-</u>                          | <u>33,075</u>     |
| At 31 December 2021                                 |       | <u>1,563,510</u>             | <u>74,786</u>                                 | <u>(441,663)</u>                  | <u>1,196,633</u>  |

ANT BANK (HONG KONG) LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2021

|   | Notes | 2021<br>HK\$ | 2020<br>HK\$ |
|---|-------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |       |              |              |
| Loss before tax   |       | (232,395)    | (171,524)    |
| Adjustments for:  |       |              |              |
| Unrealised foreign exchange differences                                 |       | (3,710)      | 3,253        |
| Share-based payment expense   | 5, 15 | 33,075       | 33,534       |
| Amortisation of intangible assets                                       | 12    | 9,749        | 3,250        |
| Net (reversal) / charge of impairment allowances                        | 6     | (1,271)      | 1,547        |
| Operating cash flows before changes in operating assets and liabilities |       | (194,552)    | (129,940)    |
| Changes in operating assets and liabilities:                            |       |              |              |
| Amounts due to fellow subsidiaries and other related parties            |       | 13,554       | 8,506        |
| Placements with banks with an original maturity beyond three months     |       | (70,109)     | -            |
| Prepayment  |       | 648          | (652)        |
| Certificate of deposit with an original maturity beyond three months    |       | (388,996)    | -            |
| Financial Investments   |       | (77,719)     | -            |
| Loans and advances to customers   |       | (550)        | -            |
| Deposits from customers   |       | 7,326        | 733,536      |
| Other payables and accruals   |       | (2,867)      | 17,034       |
| Net cash (used in) / from operating activities                          |       | (713,265)    | 628,484      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |       |              |              |
| Additions to intangible assets  | 12    | -            | (48,747)     |
| Net cash used in investing activities                                   |       | -            | (48,747)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |       |              |              |
| Proceeds from issue of shares   | 14    | 778,640      | -            |
| Net cash generated from financing activities                            |       | 778,640      | -            |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                               |       | 65,375       | 579,737      |
| Cash and cash equivalents at beginning of year                          |       | 1,347,003    | 770,519      |
| Net foreign exchange difference   |       | 3,710        | (3,253)      |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                                | 17    | 1,416,088    | 1,347,003    |
| Cash flows from operating activities include:                           |       |              |              |
| Interest received   |       | 1,841        | 6,916        |
| Interest paid   |       | 7,521        | 1,795        |

# ANT BANK (HONG KONG) LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2021

### 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 incorporated 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 9,  
HKAS 39, HKFRS 7,  
HKFRS 4 and HKFRS 16  
Amendment to HKFRS 16

*Interest Rate Benchmark Reform – Phase 2*

*Covid-19-Related Rent Concessions beyond 30 June 2021*  
(early adopted)

## 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

This amendment did not have any material impact on the financial position and performance of the Bank.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The amendment did not have any impact on the financial position and 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 HKAS 1 and HKFRS Practice Statement 2 | <i>Disclosure of Accounting Policies</i> <sup>2</sup>   |
| Amendments to HKAS 8                                | <i>Definition of Accounting Estimates</i> <sup>2</sup>  |
| Amendments to HKAS 12                               | <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>2</sup>  |
| Annual Improvements to HKFRSs 2018-2020             | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>1</sup> |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

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

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 *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 assessing the impact of the amendments on the Bank's accounting policy disclosures.

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 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 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.

*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 expected to be 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. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Bank's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 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. For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default.

The Bank considers a default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Bonus payments that are not due wholly within twelve months after the end of the year in which the employees render the related services are included as staff costs. The long-term employee benefits are measured at the present value of the expected payments which also reflects the possibility that some employees may leave without receiving the bonus.

(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)

(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.

*Income tax*

The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. Please refer to note 8 to the financial statements for details.

ANT BANK (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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4. NET INTEREST (EXPENSE) / INCOME

|  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|--|------------------|------------------|
| Interest income arising from financial assets<br>at amortised cost       | <u>2,020</u>     | <u>7,027</u>     |
| Interest expense arising from financial liabilities<br>at amortised cost | <u>(7,521)</u>   | <u>(1,820)</u>   |
| Net interest (expense) / income  | <u>(5,501)</u>   | <u>5,207</u>     |

5. ADMINISTRATIVE EXPENSES

|   | Note  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|---|-------|------------------|------------------|
| Staff costs (a)                                   |       |                  |                  |
| Salaries and others                               | 15    | 107,733          | 103,984          |
| Defined contribution pension scheme contributions |       | 2,127            | 1,806            |
| Server and technical service fees                 |       | 81,029           | 41,964           |
| Rental expenses                                   | 16(b) | 11,464           | 8,402            |
| Legal and professional fees                       |       | 2,645            | 8,885            |
| Amortisation of intangible assets                 | 12    | 9,749            | 3,250            |
| Auditor's remuneration                            |       | 712              | 700              |
| Other expenses                                    |       | <u>16,421</u>    | <u>2,940</u>     |
|   |       | <u>231,880</u>   | <u>171,931</u>   |

Note:

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

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NOTES TO FINANCIAL STATEMENTS

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6. NET REVERSAL / (CHARGE) OF IMPAIRMENT ALLOWANCES

|   | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|---|------------------|------------------|
| Balances with banks - Stage 1             | 1,418            | (1,547)          |
| Loans and advances to customers - Stage 1 | (5)              | -                |
| Financial investments - Stage 1           | <u>(142)</u>     | <u>-</u>         |
|   | <u>1,271</u>     | <u>(1,547)</u>   |

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:

|                  | Note | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|------------------|------|------------------|------------------|
| Fees             |      | 1,440            | 1,470            |
| Other emoluments | (a)  | <u>8,470</u>     | <u>9,830</u>     |
|                  |      | <u>9,910</u>     | <u>11,300</u>    |

Note:

- (a) Included in other emoluments is a defined contribution pension scheme contribution of HK\$101,000.

During the year ended 31 December 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 15 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.



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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 (2020: 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:

|  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|--|------------------|------------------|
| Loss before tax                        | <u>(232,395)</u> | <u>(171,524)</u> |
| Tax at the statutory tax rate of 16.5% | (38,345)         | (28,301)         |
| Income not subject to tax              | (612)            | -                |
| Expenses not deductible for tax        | 5,542            | 6,100            |
| Tax losses not recognised              | <u>33,415</u>    | <u>22,201</u>    |
| Income tax expense                     | <u>-</u>         | <u>-</u>         |

9. BALANCES WITH BANKS

|  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|--|------------------|------------------|
| Balances with central bank   | 491,647          | 466,661          |
| Balances with banks  | 561,388          | 305,871          |
| Placements with banks with original maturity of three months or less when acquired         | 207,139          | 574,471          |
| Placements with banks with an original maturity beyond three months but less than one year | <u>70,109</u>    | <u>-</u>         |
|  | 1,330,283        | 1,347,003        |
| Less: Allowances for expected credit losses - Stage 1                                      | <u>(129)</u>     | <u>(1,547)</u>   |
|  | <u>1,330,154</u> | <u>1,345,456</u> |

The movement in provision for impairment against balances with banks is as follows:

|  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|--|------------------|------------------|
| At beginning of year - Stage 1                   | 1,547            | -                |
| Net reversal / (charge) of impairment allowances | <u>(1,418)</u>   | <u>1,547</u>     |
| At end of year                                   | <u>129</u>       | <u>1,547</u>     |

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10. LOANS AND ADVANCES TO CUSTOMERS

|   | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|---|------------------|------------------|
| Loans and advances to customers                       | 550              | -                |
| Less: Allowances for expected credit losses - Stage 1 | <u>(5)</u>       | <u>-</u>         |
|   | <u>545</u>       | <u>-</u>         |

11. FINANCIAL INVESTMENTS

|   | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|---|------------------|------------------|
| At amortised cost:                                    |                  |                  |
| Debt securities                                       | 622,629          | -                |
| Less: Allowances for expected credit losses - Stage 1 | <u>(142)</u>     | <u>-</u>         |
|   | <u>622,487</u>   | <u>-</u>         |

12. INTANGIBLE ASSETS

|   | Software<br>HK\$'000 |
|---|----------------------|
| Cost at 1 January 2020, net of accumulated amortisation | -                    |
| Additions   | 48,747               |
| Amortisation provided during the year                   | <u>(3,250)</u>       |
| At 31 December 2020                                     | <u>45,497</u>        |
| At 31 December 2020 and 1 January 2021                  |                      |
| Cost  | 48,747               |
| Accumulated amortisation                                | <u>(3,250)</u>       |
| Net carrying amount                                     | <u>45,497</u>        |
| Cost at 1 January 2021, net of accumulated amortisation | 45,497               |
| Amortisation provided during the year                   | <u>(9,749)</u>       |
| At 31 December 2021                                     | <u>35,748</u>        |
| At 31 December 2021                                     |                      |
| Cost  | 48,747               |
| Accumulated amortisation                                | <u>(12,999)</u>      |
| Net carrying amount                                     | <u>35,748</u>        |

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13. 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<br>of intangible<br>assets<br>HK\$'000 | Utilised<br>tax losses<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|------------------------------------|-------------------|
| At 1 January 2020                      | -   | -                                  | -                 |
| Charge/(credited) to profit or loss    | 7,507   | (7,507)                            | -                 |
| At 31 December 2020 and 1 January 2021 | 7,507   | (7,507)                            | -                 |
| Charge/(credited) to profit or loss    | 5,898   | (5,898)                            | -                 |
| At 31 December 2021                    | 13,405  | (13,405)                           | -                 |

Deferred tax assets not recognised

Deferred tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2021, the Bank did not recognise deferred tax assets in respect of estimated tax losses amounting to approximately HK\$407,338,802 (2020: HK\$172,991,000) that can be carried forward indefinitely to set off against future taxable income. The estimated tax loss in respect of the year of assessment 2020/21 has not yet been confirmed by the Hong Kong Inland Revenue Department.

14. SHARE CAPITAL

|   | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|---|------------------|------------------|
| Issued and fully paid:                          |                  |                  |
| 200,000,000 (2020: 100,000,001) ordinary shares | 1,563,510        | 784,870          |

A summary of the movements in the Bank's share capital is as follows:

|   | Number of<br>shares in issue | Share capital<br>HK\$'000 |
|---|------------------------------|---------------------------|
| At 1 January 2020, 31 December 2020 and<br>1 January 2021 | 100,000,001                  | 784,870                   |
| Issue of share capital (Note)                             | 99,999,999                   | 778,640                   |
| At 31 December 2021                                       | 200,000,000                  | 1,563,510                 |

Note: On 26 October 2021, 99,999,999 ordinary shares of US\$1 each were issued to the existing shareholders of the Bank, which resulted in proceeds of HK\$778,639,992.

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

ANT BANK (HONG KONG) LIMITED

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15. SHARE OPTION SCHEMES

The following table lists the total fair value of share option schemes for the years ended 31 December 2021 and 2020:

|                                    | 2021        | 2020        |
|------------------------------------|-------------|-------------|
| Granted during the year            | 42,054,829  | 78,224,325  |
| Vested during the year             | 25,566,272  | 32,900,686  |
| Replaced/forfeited during the year | 23,983,204  | 33,329,431  |
| Average remaining life (years)     | <u>4.79</u> | <u>4.83</u> |

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 2021 and 31 December 2020:

|                         | 2021                   | 2020                   |
|-------------------------|------------------------|------------------------|
| Risk free interest rate | 2.78% - 3.16%          | 2.99% - 3.24%          |
| Expected dividend yield | 0%                     | 0%                     |
| Expected life (years)   | 6.00                   | 6.00                   |
| Expected volatility     | <u>24.37% - 24.87%</u> | <u>23.90% - 24.35%</u> |

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\$3,918,000 (2020: a charge of HK\$8,071,000) 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\$16,014,000 (2020: HK\$13,979,000) in connection with the above RSUs.

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15. 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\$19,126,000 (2020: HK\$8,823,000) 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\$1,853,000 (2020: HK\$2,662,000) 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\$23,000 (2020: Nil) in connection with the above GRUs.

16. RELATED PARTY TRANSACTIONS

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

|  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|--|------------------|------------------|
| Taobao China Holding Limited                       | 6,812            | 6,520            |
| Alipay (Hangzhou) Information Technology Co., Ltd. | 18,108           | 3,295            |
| Alibaba Cloud (Singapore) Private Limited          | 180              | 2,507            |
| Alipay Financial Services (HK) Limited             | 1,738            | 1,034            |
| Alipay Payment Services (HK) Limited               | 110              | 40               |
| 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                | 1                |
|  | <u>26,952</u>    | <u>13,398</u>    |

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

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16. RELATED PARTY TRANSACTIONS (continued)

(b) In addition to the transactions disclosed elsewhere in these financial statements, the Bank had the following transactions with the related parties during the year:

|  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|--|------------------|------------------|
| Administrative expenses paid to:                   |                  |                  |
| Alibaba Cloud (Singapore) Private Limited          | 31,843           | 23,738           |
| Alipay (Hangzhou) Information Technology Co., Ltd. | 57,404           | 19,424           |
| Taobao China Holding Limited                       | 11,464           | 8,402            |
| Alipay Financial Services (HK) Limited             | 704              | 688              |
| Alipay Payment Services (HK) Limited               | 1,143            | -                |
| Alibaba.com Singapore E-Commerce Private Limited   | 570              | -                |
| 阿里巴巴（中国）网络技术有限公司                                   | 5                | 4                |
|  | <u>103,133</u>   | <u>52,256</u>    |
| Intangible assets purchased from:                  |                  |                  |
| Alipay (Hangzhou) Information Technology Co., Ltd. | -                | 46,267           |
| Zoloz PTE Ltd.                                     | -                | 2,480            |
|  | <u>-</u>         | <u>48,747</u>    |

(c) Compensation of key management personnel of the Bank

|                              | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 9,380            | 9,843            |
| Pension scheme contributions | 314              | 275              |
| Share-based payments         | <u>10,084</u>    | <u>9,342</u>     |
|                              | <u>19,778</u>    | <u>19,460</u>    |

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

17. CASH AND CASH EQUIVALENTS

|  | 2021<br>HK\$'000 | 2020<br>HK\$'000 |
|--|------------------|------------------|
| Balances with central bank and banks   | 1,053,035        | 772,532          |
| Placements with banks with original maturity of three months or less when acquired | 207,139          | 574,471          |
| Certificates of deposit with original maturity within three months                 | <u>155,914</u>   | <u>-</u>         |
| Cash and cash equivalents in the statement of cash flows                           | <u>1,416,088</u> | <u>1,347,003</u> |

ANT BANK (HONG KONG) LIMITED

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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 bank balances 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.

Maximum exposure and year-end staging

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 2021 and 2020. The amounts presented are gross carrying amounts for financial assets.

|                                 | Stage 1<br>HK\$'000 | Stage 2<br>HK\$'000 | Stage 3<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------------|---------------------|---------------------|---------------------|-------------------|
| <u>At 31 December 2021</u>      |                     |                     |                     |                   |
| Loans and advances to customers | 550                 | -                   | -                   | 550               |
| Financial investments           | 622,629             | -                   | -                   | 622,629           |
| Balances with banks             | 1,330,283           | -                   | -                   | 1,330,283         |
|                                 | <u>1,953,462</u>    | <u>-</u>            | <u>-</u>            | <u>1,953,462</u>  |
| <u>At 31 December 2020</u>      |                     |                     |                     |                   |
| Balances with banks             | <u>1,346,003</u>    | <u>-</u>            | <u>-</u>            | <u>1,346,003</u>  |



ANT BANK (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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 2021 and 2020 based on the contractual undiscounted cash flows:

|  | Total<br>contractual<br>undiscounted<br>cash flow<br>HK\$'000 | On<br>demand<br>HK\$'000 | Less than<br>3 months<br>HK\$'000 | 3 to 12<br>months<br>HK\$'000 |
|--|---|--------------------------|-----------------------------------|-------------------------------|
| <u>At 31 December 2021</u>                                       |   |                          |                                   |                               |
| Deposits from customers  | 740,862   | 740,862                  | -                                 | -                             |
| Amounts due to fellow subsidiaries<br>and other related parties  | 26,952  | -                        | 26,952                            | -                             |
| Financial liabilities included in other<br>payables and accruals | 9,286   | -                        | 9,286                             | -                             |
|  | <u>777,100</u>  | <u>740,862</u>           | <u>36,238</u>                     | <u>-</u>                      |
| <u>At 31 December 2020</u>                                       |   |                          |                                   |                               |
| Deposits from customers  | 733,536   | 733,536                  | -                                 | -                             |
| Amounts due to fellow subsidiaries<br>and other related parties  | 13,398  | -                        | 13,398                            | -                             |
| Financial liabilities included in other<br>payables and accruals | 11,534  | -                        | 11,534                            | -                             |
|  | <u>758,468</u>  | <u>733,536</u>           | <u>24,932</u>                     | <u>-</u>                      |

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

*Interest rate risk*

As at 31 December 2021, 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 2021 and 2020.

*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 reasonable cost.

The HKMA sets 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. EVENTS AFTER THE REPORTING PERIOD

There have been no events after the reporting period that require adjustments to the financial statements.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2022.