



PING AN ONECONNECT BANK (HONG KONG) LIMITED
(平安壹賬通銀行(香港)有限公司)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

Ping An OneConnect Bank (Hong Kong) Limited

Room 1903-1904, NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong Tel: 3951 4800 Fax: 3585 0094

www.paob.com.hk

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PING AN ONECONNECT BANK (HONG KONG) LIMITED

(平安壹賬通銀行(香港)有限公司)

REPORT OF THE DIRECTORS

The directors submit herewith their report together with the audited financial statements for the year ended 31 December 2020.

Principal place of business

Ping An OneConnect Bank (Hong Kong) Limited (the “**Bank**”) is a bank incorporated and domiciled in Hong Kong. The Bank has its registered office and principal place of business at 1903-04, NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Principal activities

The Bank is a wholly-owned subsidiary of OneConnect Financial Technology Co., Ltd. (“**OCFT**”) and a group member of the Ping An Insurance (Group) Company of China. The Bank is a licensed bank registered under the Hong Kong Banking Ordinance and its principal activity is to provide banking services through electronic channels instead of physical branches. The Bank is regulated by the Hong Kong Monetary Authority (“**HKMA**”) and needs to comply with the Guideline on Authorisation of Virtual Banks as well as other supervisory policies, regulations and guidelines issued by the HKMA covering such areas as corporate governance, risk management, anti-money laundering & financing of terrorism, etc. The Bank officially commenced its business to the general public in Hong Kong on 29 September 2020 and is currently providing virtual banking services to selected small and medium enterprises and individual customers in Hong Kong.

Business review

No business review is presented for the year as the Bank has been able to claim an exemption under section 388(3) of the Companies Ordinance Cap. 622 since it is a wholly-owned subsidiary of Jin Yi Rong Limited, a company incorporated in Hong Kong.

Results and appropriation

The loss of the Bank for the year and the state of the Bank’s affairs as at 31 December 2020 are set out in the financial statements on pages 6 to 44.

Dividend

The directors do not recommend any payment of dividend for the year ended 31 December 2020 (2019: Nil).

Share capital

Details of share capital of the Bank are set out in Note 21 to the financial statements.

Directors

The directors, including executive director, non-executive directors and independent non-executive directors of the Bank during the year and up to the date of this report are:

Yip Dicky Peter – Chairman
Chen Rong – Vice Chairman
Fung Yuk Lung – Chief Executive
Tan Sin Yin
Ip So Lan
Tong Mei Kuen Tommei
Yeung Tak Bun
Shek Lai Him Abraham
Song Max

PING AN ONECONNECT BANK (HONG KONG) LIMITED
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REPORT OF THE DIRECTORS (continued)

Share options granted to directors and selected employees

Details of the share options granted by OCFT to the Bank's directors and selected employees are set out in Note 24 of the financial statements.

Indemnity provision

A permitted indemnity provision as set out in the articles of association of the Bank that provides for indemnity against liability incurred by directors of the Bank is currently in force and was in force throughout the year.

Directors' interest in shares

Save as disclosed in the financial statements for the year, at no time during the year was the Bank a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporates.

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank was a party and in which a director of the Bank had, directly or indirectly, a material interest, subsisted for the year.

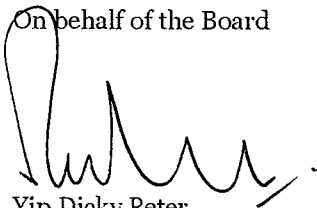
Management contracts

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 for the year.

Auditor

The financial statements for the year have been audited by PricewaterhouseCoopers who was appointed and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Yip Dicky Peter
Chairman

Hong Kong, 17 March 2021

Independent Auditor's Report
To the Member of Ping An OneConnect Bank (Hong Kong) Limited
(平安壹賬通銀行(香港)有限公司)
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of Ping An OneConnect Bank (Hong Kong) Limited (the "Bank") set out on pages 6 to 44, which comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, 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 ("HKSA") 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the 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.

Independent Auditor's Report (Continued)
To the Member of Ping An OneConnect Bank (Hong Kong) Limited
(平安壹賬通銀行(香港)有限公司)
(incorporated in Hong Kong with limited liability)

Other Information

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

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.

Responsibilities of Directors and the Audit Committee for the Financial Statements

The directors of the Bank 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 Audit Committee is responsible for overseeing the Bank's financial reporting process.

Independent Auditor's Report (Continued)
To the Member of Ping An OneConnect Bank (Hong Kong) Limited
(平安壹賬通銀行(香港)有限公司)
(incorporated in Hong Kong with limited liability)

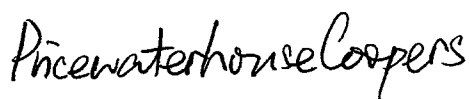
Auditor's Responsibilities for the Audit of the Financial Statements

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. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 March 2021

PING AN ONECONNECT BANK (HONG KONG) LIMITED
(平安壹賬通銀行(香港)有限公司)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK\$'000	2019* HK\$'000
Interest income	4(a)	6,056	6,960
Interest expense	4(b)	(2,953)	(388)
Net interest income		3,103	6,572
Fees and commission income	5	373	–
Other income	6	4,497	–
Total income		7,973	6,572
Staff costs	7	(117,459)	(62,724)
Premises and equipment	7	(4,369)	(5,166)
Other expenses	7	(69,546)	(50,646)
Total expenses	7	(191,374)	(118,536)
Operating loss before impairment losses		(183,401)	(111,964)
Charge for expected credit losses	8	(800)	–
Loss before income tax		(184,201)	(111,964)
Income tax expenses	9	–	–
Loss after income tax		(184,201)	(111,964)
Other comprehensive income:			
<u>Items may be reclassified subsequently to profit or loss:</u>			
– Changes in the fair value of debt instruments at fair value through other comprehensive income		(42)	44
Other comprehensive income, net of tax		(42)	44
Total comprehensive income		(184,243)	(111,920)

* From 7 December 2018 (date of incorporation) to 31 December 2019.

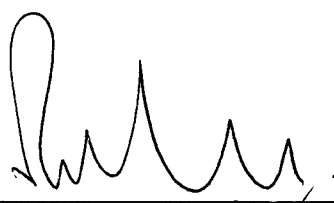
The notes on pages 10 to 44 form part of these financial statements.

PING AN ONECONNECT BANK (HONG KONG) LIMITED
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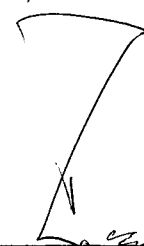
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Assets			
Balances with banks and central bank	11	251,831	86,072
Placements with and advances to banks	12	531,910	–
Investment securities	13	209,703	433,642
Loans and advances to customers	14	69,743	–
Amounts due from related companies	23	4,771	–
Property, plant and equipment	15	7,787	9,954
Intangible assets	16	121,947	61,597
Right-of-use asset	17	9,194	14,353
Other assets	18	13,291	13,671
Total assets		<u>1,220,177</u>	<u>619,289</u>
Liabilities			
Deposits from customers	19	481,841	–
Lease liability	17	11,687	16,573
Amounts due to related companies	23	77,363	71,494
Other payables and accruals	20	37,994	40,545
Total liabilities		<u>608,885</u>	<u>128,612</u>
Equity			
Share capital	21(b)	900,000	600,000
Retained earnings		(296,165)	(111,964)
Other reserves		7,457	2,641
Total equity		<u>611,292</u>	<u>490,677</u>
Total liabilities and equity		<u>1,220,177</u>	<u>619,289</u>

The financial statements were approved by the Board of Directors on 17 March 2021 and were signed on its behalf



YIP Dicky Peter
Chairman



Fung Yuk Lung
Chief Executive

The notes on pages 10 to 44 form part of these financial statements.

PING AN ONECONNECT BANK (HONG KONG) LIMITED
(平安壹賬通銀行(香港)有限公司)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Share capital HK\$'000	Accumulated loss HK\$'000	Other reserves		Total equity HK\$'000
				Financial assets at FVOCI reserve HK\$'000	Share-based compensation reserve (Note 1) HK\$'000	
At 7 December 2018		-	-	-	-	-
Change in equity for the period:						
Shares issued	21(b)	600,000	-	-	-	600,000
Loss for the period		-	(111,964)	-	-	(111,964)
Other comprehensive income		-	-	44	-	44
Movement in respect of share-based compensation	24(b)	-	-	-	2,597	2,597
At 31 December 2019		<u>600,000</u>	<u>(111,964)</u>	<u>44</u>	<u>2,597</u>	<u>490,677</u>
Change in equity for the year:						
Capital contributions from ultimate holding company	21(b)	300,000	-	-	-	300,000
Loss for the year		-	(184,201)	-	-	(184,201)
Other comprehensive income		-	-	(42)	-	(42)
Movement in respect of share-based compensation	24(b)	-	-	-	4,858	4,858
At 31 December 2020		<u>900,000</u>	<u>(296,165)</u>	<u>2</u>	<u>7,455</u>	<u>611,292</u>

Note 1: The share-based compensation reserve is to record the corresponding amount of shares and share options granted by OneConnect Financial Technology Co. Ltd., the ultimate holding company of the Bank, to the Bank's employees.

The notes on pages 10 to 44 form part of these financial statements.

PING AN ONECONNECT BANK (HONG KONG) LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK\$'000	2019* HK\$'000
Cash flows from operating activities			
Loss before taxation		(184,201)	(111,964)
Adjustment for:			
Charge for expected credit losses	8	800	–
Depreciation on property, plant and equipment	15	3,971	891
Depreciation on right-of-use assets		5,071	2,871
Amortisation of intangible assets	16	12,051	907
Share-based compensation	24(b)	4,858	2,597
Interest income from bank deposits		(2,395)	(6,910)
Interest income from investment securities at FVOCI		(2,351)	(50)
Interest income from investment securities at amortised cost		(291)	–
Interest income from loans		(1,019)	–
Interest expense on deposits from customers	4(b)	2,339	–
Interest expense on lease liability	4(b)	614	388
Cash flows before changes in operation activities		(160,553)	(111,270)
Loans and advances to customers		(70,528)	–
Changes in amounts due from related companies		(4,771)	–
Changes in other assets and other receivable		730	(13,621)
Changes in deposits from customers		481,841	–
Changes in amounts due to related companies		5,869	71,494
Changes in other payable and accruals		(2,927)	40,545
Cash generated from/(used in) operating activities		249,661	(12,852)
Interest received		5,705	6,910
Interest paid		(1,963)	–
Net cash generated from/(used in) operating activities		253,403	(5,942)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(1,804)	(10,845)
Purchase of intangible assets	16	(72,401)	(62,504)
Investments in investment securities at FVOCI		(19,995)	–
Investments in investment securities at amortised cost		(189,716)	–
Net cash used in investing activities		(283,916)	(73,349)
Cash flows from financing activities			
Capital injection/Proceeds from issuance of share capital	21(b)	300,000	600,000
Principal elements of lease payments		(5,412)	(1,039)
Net cash generated from financing activities		294,588	598,961
Net increase in cash and cash equivalents		264,075	519,670
Cash and cash equivalents at beginning of the year/period		519,714	–
Effect of exchange rate and other changes on cash and cash equivalents		(42)	44
Cash and cash equivalents at end of the year/period	25	783,747	519,714

* From 7 December 2018 (date of incorporation) to 31 December 2019.

The notes on pages 10 to 44 form part of these financial statements.

PING AN ONECONNECT BANK (HONG KONG) LIMITED
(平安壹賬通銀行(香港)有限公司)

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Ping An OneConnect Bank (Hong Kong) Limited (the “Bank”) is a licensed bank authorised under the Hong Kong Banking Ordinance since 9 May 2019. The Bank has launched its banking services during 2020.

The address of the Bank’s registered office and principal place of business is 1903-04, NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

As at 31 December 2020, the immediate holding company of the Bank was Jin Yi Rong Limited (“JYR”), a company incorporated in Hong Kong. JYR is controlled by Jin Yi Tong Limited, being the intermediate holding company and incorporated in British Virgin Islands. Its ultimate holding company was OneConnect Financial Technology Co., Ltd. (“OCFT”), a company incorporated in Cayman Islands, and listed in the New York Stock Exchange since 13 December 2019. OCFT is also an associated company of the Ping An Insurance (Group) Company of China (the “Ping An Group”).

2. Significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements. These policies have been consistently applied in the period presented, unless otherwise stated.

(a) Basis of preparation of the financial statements

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the requirements of the Hong Kong Companies Ordinance (“Cap 622”). The financial statements are presented in thousands of units of Hong Kong Dollars (“HK\$’000”), which is the Bank’s functional and presentation currency. Disclosures for 2019 comparative figures are numbers for the period from 7 December 2018 (date of incorporation) to 31 December 2019.

The measurement basis used in the preparation of the financial statements is the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income.

The preparation of the financial statements in conformity with adopted HKFRSs requires management to make certain judgments, estimates and assumptions that affect the application of policies. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving higher degree of judgment or complexity are disclosed in Note 3.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for this financial reporting period and have not been early adopted by the Bank. These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued)

(c) Intangible assets

Intangible assets included acquired software and capitalised development costs of computer software programmes.

Development costs that are directly attributable to the design and testing of identifiable and unique system and platform controlled by the Bank are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Acquired software and capitalised development costs are recorded as intangible assets and amortised on the straight-line basis from the point at which the asset is ready for use and over its expected economic life, which usually ranges from 3 to 10 years.

The amortisation period and the amortisation method are reviewed, and adjusted if appropriate, at least at each reporting period end. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Other development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Leasehold improvements are depreciated over the unexpired terms of the lease
- Equipment is depreciated over 3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Gains and losses on disposals determined by comparing proceeds with the carrying amount are included in the statement of comprehensive income.

(e) Leases

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and
- payments of restoration costs for terminating the lease, if the lease term reflects the Bank exercising that option.

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued)

(f) Financial assets

(i) Classification

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

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

For investment in debt instruments, the classification depends on the Bank’s business model for managing the financial assets and the contractual terms of the cash flows. The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Bank’s business model for managing the asset and the cash flows characteristics of the asset. There are three measurement categories into which the Bank classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued)

(f) Financial assets (continued)

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instruments that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iv) Impairment

The Bank assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 22 details how the Bank determines whether there has been a significant increase in credit risk.

(g) Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprise balances with less than three months original maturity from the date of acquisition, including balances with banks, placements with and advances to banks and exchange fund bills ("EFB"), which are readily convertible to known amount of cash and are subject to an insignificant risk of changes in value.

(h) Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(i) Fees and commission income

Fees and commissions are recognized on an accrual basis when the service has been provided or significant act performed.

(j) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued)

(k) Employee benefits

(i) Retirement benefits scheme

The Bank operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries, with a cap and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the Scheme.

The assets of the Scheme are held separately from those of the Bank in an independently administered fund. The Bank’s employer contributions vest fully with the employees when contributed into the Scheme.

(ii) Bonus

Liabilities for bonus plans due wholly within twelve months after the end of the reporting period are recognised when the Bank has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Annual leave

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period.

(l) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities attribute to temporary differences and to unused tax losses.

Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss, except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates, enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise to the initial recognition of goodwill. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued)

(m) Provisions

The Bank recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

(n) Share-based payment

An equity-settled share-based compensation plan was operated by the OCFT, the ultimate holding company of the Bank. Share options or awards were granted to the directors and employees of the Bank, under which the Bank receives services from employees as consideration for equity instruments of the OCFT. Information relating to the schemes is set out in Note 24.

The award is treated as an equity-settled share-based payment in the Bank's financial statements as the Bank does not have an obligation to settle the award. The fair value of the employee services received in exchange for the grant of the options is recognised as an expenses over the vesting period and with a corresponding adjustment to equity. The credit to equity is treated as a capital contribution.

The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance;
- excluding the impact of any service and non-market performance vesting conditions;
- including the impact of any non-vesting conditions

At the end of each reporting period, the Bank revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued)

(o) Foreign currency translation

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

3. Significant accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Income tax

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

As at 31 December 2020, no deferred tax asset has been recognised on the estimated unused tax losses of approximately HK\$417,070,000 (31 December 2019: HK\$173,022,000) due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, recognition of deferred tax assets may arise.

(b) Capitalisation of development costs

Costs incurred in developing the new platforms and systems are capitalised as intangible assets when recognition criteria as detailed in Note 2 (c) are fulfilled. Management has applied its professional judgement in determining whether these costs fulfilled the recognition criteria and whether the platforms and systems could generate probable future economic benefits to the Bank. Any severe change in market performance or technology advancement will have an impact on the development costs capitalised.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Interest income and interest expense

	2020 HK\$'000	2019* HK\$'000
(a) Interest income		
Balances with banks	2,395	6,910
Loans and advances to customers	1,019	–
Investment securities at amortised cost	291	–
Investment securities at fair value through other comprehensive income	2,351	50
	<u>6,056</u>	<u>6,960</u>
(b) Interest expense		
Financial liabilities at amortised cost	2,339	–
Lease liability	614	388
	<u>2,953</u>	<u>388</u>

5. Fees and commission income

	2020 HK\$'000	2019* HK\$'000
Agency services	<u>373</u>	<u>–</u>

6. Other income

	2020 HK\$'000	2019* HK\$'000
Government grant	<u>4,497</u>	<u>–</u>

The amount refers to the government grants under the Employment Support Scheme. There are no unfulfilled conditions or other contingencies attaching to these grants. The Bank did not benefit directly from any other forms of government assistance.

* From 7 December 2018 (date of incorporation) to 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Operating expenses

	Notes	2020 HK\$'000	2019* HK\$'000
Employee benefits (including directors' emolument in Note 10)			
– Salaries and other short term benefits		110,842	59,223
– Pension		1,759	904
– Share-based compensation	24	4,858	2,597
Premises and equipment expense, excluding depreciation			
– Rental of premises		2,719	4,392
– Others		1,650	774
Legal and consultancy fee		7,262	10,880
Staff recruitment cost		1,862	8,232
Software licensing and other IT cost		21,983	18,244
Depreciation of property, plant and equipment	15	3,971	891
Depreciation of right-of-use assets	17	5,071	2,871
Amortisation of intangible assets	16	12,051	907
Auditor's remuneration		1,677	368
Marketing expenses		7,233	2,668
Membership fee		1,088	1,988
Exchange difference		(1,143)	207
Other operating expenses		8,491	3,390
		<u>191,374</u>	<u>118,536</u>

8. Charge for expected credit losses

	2020 HK\$'000	2019* HK\$'000
Placements with and advances to banks	6	–
Investment securities	9	–
Loans and advances to customers	785	–
	<u>800</u>	<u>–</u>

* From 7 December 2018 (date of incorporation) to 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Income tax expenses

(a) Total tax expenses

	2020 HK\$'000	2019* HK\$'000
Current tax	–	–
Deferred tax	–	–
	<hr/>	<hr/>
Total tax expenses	<u>–</u>	<u>–</u>

(b) Reconciliation between taxation and accounting profit at applicable tax rates

	2020 HK\$'000	2019* HK\$'000
Loss before income tax	<u>(184,201)</u>	<u>(111,964)</u>
Tax calculated at Hong Kong profit tax rate of 16.5%	(30,393)	(18,474)
Tax effect of non-deductible expenses	1,045	428
Tax effect of non-taxable income	(1,319)	(8)
Temporary difference not recognised	(9,601)	(10,495)
Tax effect of tax losses not recognised	<u>40,268</u>	<u>28,549</u>
Income tax expenses	<u>–</u>	<u>–</u>

As at 31 December 2020, the Bank had estimated unused and unrecognised tax losses of approximately HK\$417,070,000 (31 December 2019: HK\$173,022,000) available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

* From 7 December 2018 (date of incorporation) to 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Directors' remuneration

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

	2020 HK\$'000	2019* HK\$'000
Directors' fees	5,901	871
Salaries, allowances and benefits in kind	15,518	16,612
Retirement benefits	186	165
Share-based compensation	5,152	1,815
	<u>26,757</u>	<u>19,463</u>

All remuneration received by the directors from the Bank are for their services in connection with the management of the affairs of the Bank.

No consideration was provided to or receivable by third parties for making available directors' services. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

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

There was no significant transactions, arrangements and contracts in relation to the Bank's business to which the Bank was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

11. Balances with banks and central bank

	2020 HK\$'000	2019 HK\$'000
Balances with banks and central bank	251,831	86,072
Less: Expected credit loss provision	–	–
	<u>251,831</u>	<u>86,072</u>

12. Placements with and advances to banks

	2020 HK\$'000	2019 HK\$'000
Placements with and advances to banks		
– Maturity within one month	301,916	–
– Maturity between one month and one year	230,000	–
Less: Expected credit loss provision	(6)	–
	<u>531,910</u>	<u>–</u>

* From 7 December 2018 (date of incorporation) to 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Investment securities

	2020 HK\$'000	2019 HK\$'000
At fair value through OCI:		
Exchange fund bills	19,995	433,642
At amortised cost:		
Debt securities	189,716	-
Less: Expected credit loss provision	(8)	-
	189,708	-

14. Loans and advances to customers

	2020 HK\$'000	2019 HK\$'000
Loans and advances to customers	70,528	-
Less: Expected credit loss provision	(785)	-
	69,743	-

15. Property, plant and equipment

	Equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
At 1 January 2020			
Opening net book amount	2,753	7,201	9,954
Additions	1,472	332	1,804
Depreciation charge	(1,000)	(2,971)	(3,971)
Closing net book amount	3,225	4,562	7,787
At 31 December 2020			
Cost	4,396	8,253	12,649
Accumulated depreciation	(1,171)	(3,691)	(4,862)
Net book amount	3,225	4,562	7,787

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment (continued)

	Equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
For the period from 7 December 2018 to 31 December 2019			
Opening net book amount	–	–	–
Additions	2,924	7,921	10,845
Depreciation charge	(171)	(720)	(891)
Closing net book amount	<u>2,753</u>	<u>7,201</u>	<u>9,954</u>
At 31 December 2019			
Cost	2,924	7,921	10,845
Accumulated depreciation	(171)	(720)	(891)
Net book amount	<u>2,753</u>	<u>7,201</u>	<u>9,954</u>

16. Intangible assets

	Acquired Software HK\$'000	Internally developed software HK\$'000	Total HK\$'000
At 1 January 2020			
Opening net book amount	7,986	53,611	61,597
Additions	5,191	67,210	72,401
Amortisation charge	(3,707)	(8,344)	(12,051)
Closing net book amount	<u>9,470</u>	<u>112,477</u>	<u>121,947</u>
At 31 December 2020			
Cost	13,688	121,217	134,905
Accumulated amortisation	(4,218)	(8,740)	(12,958)
Net book amount	<u>9,470</u>	<u>112,477</u>	<u>121,947</u>
For the period from 7 December 2018 to 31 December 2019			
Opening net book amount	–	–	–
Additions	8,497	54,007	62,504
Amortisation charge	(511)	(396)	(907)
Closing net book amount	<u>7,986</u>	<u>53,611</u>	<u>61,597</u>
At 31 December 2019			
Cost	8,497	54,007	62,504
Accumulated amortisation	(511)	(396)	(907)
Net book amount	<u>7,986</u>	<u>53,611</u>	<u>61,597</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Leases

(a) Amount recognised in the statement of financial position

	2020 HK\$'000	2019 HK\$'000
Right-of-use assets	9,194	14,353
Lease liability	11,687	16,573

(b) Amount recognised in the statement of comprehensive income

	2020 HK\$'000	2019* HK\$'000
Depreciation charge of right-of-use assets (Note 7)	5,071	2,871
Interest expense (Note 4(b))	614	388

The Bank's lease comprises of office premises, which is contracted for periods up to 3 years. Lease payments are agreed upfront except for renewal periods whereby the lease payments are subject to prevailing market rates. Extension options are currently not included in the lease term as it remains uncertain whether the lease will be extended.

The incremental borrowing rate used to determine the right-of-use asset and lease liability is 4.785%.

Payments associated with short-term leases with lease term of 12 months or less are recognised on a straight-line basis as an expense in profit or loss.

18. Other assets

	2020 HK\$'000	2019 HK\$'000
Prepaid expenses	7,492	7,986
Rental and other deposits	2,325	2,685
Other deposits and receivable	3,072	3,000
Accrued interests	402	-
	13,291	13,671

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Deposits from customers

	2020 HK\$'000	2019 HK\$'000
Savings deposits	<u>481,841</u>	<u>–</u>

20. Other payables and accruals

	2020 HK\$'000	2019 HK\$'000
Accruals for employee benefits	21,932	15,263
Accruals for consultancy fee	3,537	7,048
Other accruals	<u>12,525</u>	<u>18,234</u>
	<u>37,994</u>	<u>40,545</u>

21. Capital and reserves

(a) Components of the Bank's capital and reserves

The opening and closing balances of each component of the Bank's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Issued share capital

	No. of shares	HK\$'000
Ordinary shares, issued and fully paid:		
At 7 December 2018	–	–
Shares issued during the period	<u>1</u>	<u>600,000</u>
At 31 December 2019	1	600,000
Capital contributions from ultimate holding company	<u>–</u>	<u>300,000</u>
At 31 December 2020	<u>1</u>	<u>900,000</u>

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

The ordinary shares were issued on 7 December 2018 to provide working capital for the Bank.

On 15 May 2020, HK\$300,000,000 cash was injected to the share capital of the Bank without allotting additional shares to the shareholder.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Capital and reserves (continued)

(c) Capital management

The Bank's policy is to maintain a strong capital base to support the development of the Bank's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Bank depending on the risk taken by each business division.

The Bank's objectives when managing capital are:

- comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and
- support the Bank's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The required information is filed with the Hong Kong Monetary Authority (the "HKMA") on a quarterly basis.

The HKMA requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. The capital adequacy ratios are computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Bank has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Bank's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process including additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

22. Financial risk management

Exposure to credit, liquidity, and foreign currency risks arises in the normal course of the Bank's business. The Bank's exposure to these risks and the financial risk management policies and practices used by the Bank to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The Bank is exposed to credit risk mainly in relation to balances with banks, placement with and advances to banks, loans and advances to customers and debt investments measured at amortised at costs and fair value through other comprehensive income.

Credit risk governance

The Board is ultimately responsible for establishing the credit risk tolerance and ensuring Bank's credit risk is appropriately managed. The Risk Management Committee ("RMC") is responsible for credit policy formulation and portfolio monitoring of the loan and treasury businesses respectively. The committee is chaired by the Chief Risk Officer with senior management and credit officers as members. The RMC will report to the Board Risk Management Committee on a quarterly basis. Credit risk measurement, underwriting, approval and monitoring requirements are detailed in the Credit Risk Management policy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(a) Credit risk (continued)

Credit risk governance (continued)

The Bank manages all types of credit risk on a prudent basis. Credits are extended within the parameters set out in the credit policies and are approved by different levels of management based upon established guidelines and delegated authorities. Credit exposures, limits and asset quality are regularly monitored and controlled by management and RMC. The Bank's internal auditors also conduct regular reviews and audits to ensure compliance with credit policies and procedures, and regulatory guidelines.

The Bank has also established policies and processes for the approval and review of new products and activities, and credit policies with details of the loan grading, or credit scoring, processes and impairment policies.

Credit risk management

The Bank uses credit risk grading that aligns with HKMA's loan classifications, intending to reflect the credit quality of the borrowers. The credit grading take into consideration borrower and loan specific information collected at the time of application (such as financial indicators, industry type and qualitative indicators for corporate exposures) as well as changes post origination. Credit officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Bank and complies with relevant rules and regulations.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the management.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate, for individually managed credits. Whereas for credit programmes, the credits are managed on portfolio basis. Exposure to credit risk is mitigated in part by obtaining personal and government guarantees, where relevant.

For debt securities and interbank exposures under the treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated.

Approach for determining expected credit losses ("ECL")

Impairment is calculated in three stages and financial instruments are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase/decrease in credit risk in the relevant reporting period.

Financial instruments that are not considered to have significant increase in credit risk ("SICR") since initial recognition or low credit risk at reporting date are classified in Stage 1 and are evaluated for impairment using 12-month ECL. If SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Instruments in Stages 2 or 3 have their ECL measured based on a lifetime basis.

ECL for financial instruments are measured on a collective basis for exposures grouped with similar risk characteristics and product specifications, including customers' characteristics and product types.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(a) Credit risk (continued)

Significant increase in credit risk

The Bank assesses whether there is a SICR of a credit exposure since origination at reporting date. While determining the SICR, the Bank considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument and groups of portfolios. The Bank's internal lending policy and other credit risk management procedures are benchmarking with industry practice.

The Bank follows HKMA's guideline on loan classification. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default.

The Bank maintains a list of accounts which exhibits risks or potential weaknesses requiring closer monitoring, supervision, or attention by management. A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met:

- the borrower is more than 30 days past due on its contractual payments;
- the financial instrument's loan classification grade is "Special Mention";
- the Bank has any objective evidence showing a significant increase in credit risk since initial recognition; or
- significant change in external credit rating, i.e. migrating from investment grade to speculative grade (applicable to treasury portfolios only)

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Credit exposures can move back from stage 2 and 3 to stage 1 if the indicators of significant credit deterioration no longer prevails at the reporting date and the credit quality has improved. Should there be deviations from the above staging criteria for certain individual cases, approval from the Chief Risk Officer ("CRO") shall be obtained.

Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the Bank has objective evidence showing that facility is credit-impaired significantly impacting the expected future cash flows; or
- the loan classification grades of Stage 3 facilities are either "Substandard", "Doubtful" or "Loss".

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis. Currently the Bank does not purchase or originate credit-impaired ("POCI") financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(a) Credit risk (continued)

Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired.

ECL is calculated as the product of probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”), which reflects the change in risk of default occurring over the 12-month or remaining life of the financial instruments. PD, LGD and EAD are defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation; either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- LGD refers to the Bank’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.
- EAD refers to the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

PD is driven by a set of macroeconomic variables. Their relationship is developed by a statistical regression model, with the lifetime PD derived by factoring in forward-looking macroeconomic variable values. It is assumed that the PD is to be the same across all assets within a portfolio.

The 12-month and lifetime EADs are determined based on the expected payment profile and portfolios, which varies by product type. For non-revolving products, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Bank has performed analysis and identified a set of key economic variables impacting credit risk and expected credit loss for each portfolio. The economic variables and their associated impact on PD vary by financial instruments. Regression analysis is performed to establish the quantitative relationship between relevant economic factors and PD.

The Bank has taken into account various external factors including the Hong Kong GDP, property price index, unemployment rate. These macro-economic factors have direct impact to the import/export (“IMP/EXP”) volumes and can provide reasonable depictions of the key exogenous factor driving the overall credit cycle in the retail and SME spaces.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(a) Credit risk (continued)

Forward-looking information incorporated in the ECL models (continued)

According to the HKFRS 9 standard, expected credit loss is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. As such, the Bank developed three macroeconomic scenarios, namely “Baseline”, “Good” and “Bad” scenarios.

In this scenario setting process, the Bank considered the current economic environment and market forecasts in coming years, the influence of the coronavirus pandemic situation and loss pattern during the historical crisis.

For Baseline Scenario, it was set to have the current economic conditions to prevail for some time but with recovery in terms of domestic GDP YoY Growth Rate in latter part of first half of 2021. For Bad Scenario, it was assumed that the economy continued a downturn until the end of 2021, with negative domestic GDP YoY Growth until the last quarter. For Good scenario, it was derived based on an assumption of a strong economic rebound by an extent more rapidly than the baseline environment. The scenarios are updated regularly to timely reflect a change in the current economic condition.

The weightings assigned to each economic scenario, “Baseline”, “Good” and “Bad” as at 31 December 2020, were 53%, 23% and 24% respectively. Assessments are performed by the Bank’s risk function with reference to historical experiences shown by the macro-economic statistics to determine the probability weights to be assigned to the three scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Sensitivity analysis

As described above, the Bank applies 3 alternative macro-economic scenarios (i.e. “Baseline”, “Good” and “Bad” scenarios) to reflect unbiased probability-weighted range of possible future outcomes in estimating ECL.

By assuming 10% scenario weight shift from “Baseline” scenario to “Good” or “Bad” scenario at the year end of 2020, there would be a decrease in expected credit loss by approximately HK\$580 or an increase in credit loss of approximately HK\$770, respectively.

Nature of credit enhancements

The Bank applies different strategies and processes to hedge and mitigate different risks. Exposure to credit risk is mitigated by guarantees. Personal guarantee, government guarantee and guarantees given by public sector entities, are potentially relevant forms of credit risk mitigations adopted by the Bank to manage, hedge and mitigate risks that arise from the Bank’s business model. The Bank ensures that guarantees accepted should be unconditional and irrevocable, represent a direct claim on the guarantor, and remain continuously effective until the facility covered by the guarantee is fully repaid or settled.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk

The maximum exposures to credit risk of on-balance sheet financial instruments, before taking into account of any collateral held or other credit enhancements is the carrying amount reported in the statement of financial position. There are no off-balance sheet instruments except for loan commitments which are unconditionally cancellable.

Credit quality

Balances with banks and central bank and placements with and advances to banks are rated investment grade based on Standard and Poor's or equivalent ratings, which are unsecured, neither past due nor impaired.

For loans and advances to customers, the loan classifications given by HKMA's guideline have been followed. For debt securities, credit rating from Standard and Poor's, or equivalent, is adopted.

Loans and advances to customers

	2020			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Credit grade:				
Pass	70,528	–	–	70,528
Gross carrying amount	70,528	–	–	70,528
ECL	(785)	–	–	(785)
Carrying amount	69,743	–	–	69,743

There are no loans and advances to customers at 31 December 2019.

Investment securities

	Investment securities at fair value through OCI		Investment securities at amortised cost	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Credit grade:				
AA- to AA+	19,995	433,642	–	–
A- to A+	–	–	189,716	–
Gross carrying amount	19,995	433,642	189,716	–
Stage 1 ECL	1	–	8	–

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(a) Credit risk (continued)

Expected credit loss allowance

Reconciliation of gross carrying amount and ECL for loans and advances to customers and investment securities are as follows:

	Loans and advances to customers		Investment securities	
	Gross carrying amount HK\$'000	Stage 1 12-month ECL HK\$'000	Gross carrying amount HK\$'000	Stage 1 12-month ECL HK\$'000
At 1 January 2020	–	–	433,642	–
New assets originated, assets derecognized or repayment	70,528	785	(223,931)	9
Change in PDs/LGDs/EADs	–	–	–	–
At 31 December 2020	<u>70,528</u>	<u>785</u>	<u>209,711</u>	<u>9</u>

There are no transfer between stages, renegotiation or modification of contractual cash flows, credit-impaired or write-off of loans.

All exposures under treasury portfolio are in stage 1 with no stage transition during the year.

Write-off policy

The Bank writes off financial assets in whole when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Collection action may be suspended under the following circumstances:

- the customer has passed away, filed bankruptcy petition or/ and applied Individual Voluntary Arrangement (“IVA”);
- the Bank is undergoing specific processes in relation to bankruptcy of or debt restructuring for the customer; and
- specific requirements as a result of litigation or police/fraud investigation against the concerned account.

For written-off accounts, recovery actions shall not cease if recovery opportunity is still present. To cease recovery actions, due diligence on the customer should be done and the approval from the Chief Risk Officer should be sought.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Funding risk is the risk that funding, which considered to be sustainable and used to fund assets, is not sustainable over time.

Liquidity Risk Governance

The Board is ultimately responsible for establishing the liquidity risk tolerance and ensuring the Bank's liquidity risk is appropriately managed. Asset and Liability Committee ("ALCO") and Risk Management Committee ("RMC") have been delegated to manage the Bank's liquidity risk strategy, policies and practices, oversee the liquidity risk framework to ensure proper internal control are in place and in compliance with the regulatory requirements. The Treasury Division has the primary responsibility for day-to-day funding and monitor the future cash flows to ensure adequate financial resources are available to meet the respective financial obligations. Market and Liquidity Risk Division monitors the liquidity risk position against approved thresholds independently. The structure of the liquidity risk management approach consists of a set of pre-defined boundaries to control and maintain the Bank's liquidity profile, including maintaining high-credit-quality investments with deep market as liquidity cushion, regular monitoring and stress testing, as well as a defined contingency funding plan.

Liquidity Risk Measurement

The Bank monitors and maintains a level of liquefiable assets to fulfill the regulatory requirements and to support the business needs and growths. Risk metrics and thresholds are set to control and monitor the liquidity risk to ensure adequate financial resources are available to meet their respective financial obligations, such as liquidity maintenance ratio, advances to deposit ratio, etc. these are subject to RMC and ALCO's review on a regular basis.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(b) Liquidity risk (continued)

Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

At 31 December 2020

	Repayable on demand HK\$'000	Within 1 month HK\$'000	Between 1 month to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 year to 5 years HK\$'000	Total HK\$'000
Assets						
Balances with banks and central bank	251,831	–	–	–	–	251,831
Placements with and advances to banks	–	301,913	229,997	–	–	531,910
Investment securities	–	49,984	–	159,719	–	209,703
Loans and advances to customers	–	3,357	6,616	29,815	29,955	69,743
Amounts due from related companies	–	4,771	–	–	–	4,771
Other assets	3,020	333	400	72	1,974	5,799
Total financial assets	254,851	360,358	237,013	189,606	31,929	1,073,757
Liabilities						
Deposits from customers	481,841	–	–	–	–	481,841
Lease liability	–	538	1,081	4,964	5,104	11,687
Amounts due to related companies	–	77,363	–	–	–	77,363
Other payables and accruals	376	14,006	23,612	–	–	37,994
Total financial liabilities	482,217	91,907	24,693	4,964	5,104	608,885
Net position – total financial assets and liabilities	(227,366)	268,451	212,320	184,642	26,825	464,872

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(b) Liquidity risk (continued)

At 31 December 2019

	Repayable on demand HK\$'000	Within 1 month HK\$'000	Between 1 month to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 year to 5 years HK\$'000	Total HK\$'000
Assets						
Balances with banks and central bank	86,072	-	-	-	-	86,072
Investment securities	-	-	433,642	-	-	433,642
Other assets	5,685	-	-	-	-	5,685
Total financial assets	<u>91,757</u>	<u>-</u>	<u>433,642</u>	<u>-</u>	<u>-</u>	<u>525,399</u>
Liabilities						
Lease liability	-	457	920	4,230	10,966	16,573
Amounts due to related companies	-	-	47,767	23,727	-	71,494
Other payables and accruals	-	15,853	19,592	5,100	-	40,545
Total financial liabilities	<u>-</u>	<u>16,310</u>	<u>68,279</u>	<u>33,057</u>	<u>10,966</u>	<u>128,612</u>
Net position – total financial assets and liabilities	<u>91,757</u>	<u>(16,310)</u>	<u>365,363</u>	<u>(33,057)</u>	<u>(10,966)</u>	<u>396,787</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(b) Liquidity risk (continued)

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table below has been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate.

At 31 December 2020

	Repayable on demand HK\$'000	Within 1 month HK\$'000	Between 1 month to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 year to 5 years HK\$'000	Total HK\$'000
Deposits from customers	481,841	-	-	-	-	481,841
Lease liability	-	580	1,160	5,098	5,149	11,987
Amounts due to related companies	-	77,363	-	-	-	77,363
Other payables and accruals	376	14,006	23,612	-	-	37,994
	<u>482,217</u>	<u>91,949</u>	<u>24,772</u>	<u>5,098</u>	<u>5,149</u>	<u>609,185</u>

At 31 December 2019

	Repayable on demand HK\$'000	Within 1 month HK\$'000	Between 1 month to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 year to 5 years HK\$'000	Total HK\$'000
Lease liability	-	520	1,039	4,678	11,386	17,623
Amounts due to related companies	-	-	47,767	23,727	-	71,494
Other payables and accruals	-	15,853	19,592	5,100	-	40,545
	<u>-</u>	<u>16,373</u>	<u>68,398</u>	<u>33,505</u>	<u>11,386</u>	<u>129,662</u>

(c) Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates and interest rates, etc.

The Bank does not have any trading portfolio. The market risk exposures mainly arise from the foreign exchange risk and interest rate risk of non-trading portfolios.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(c) Market risk (continued)

i. Foreign exchange risk

The Bank is mainly exposed to the foreign exchange risk arising from Renminbi and US dollar assets and liabilities.

	2020		2019	
	Renminbi HK\$'000	US dollar HK\$'000	Renminbi HK\$'000	US dollar HK\$'000
Financial assets				
Balances with banks and central bank	867	–	–	–
Placement with and advances to banks	76,916	–	–	–
Other assets	27	156	–	–
	<u>77,810</u>	<u>156</u>	<u>–</u>	<u>–</u>
Financial liabilities				
Amounts due to related companies	77,300	–	69,789	–
Other payables and accruals	1,644	349	889	2,126
	<u>78,944</u>	<u>349</u>	<u>70,678</u>	<u>2,126</u>
Total financial assets and liabilities net open position	<u>(1,134)</u>	<u>(193)</u>	<u>(70,678)</u>	<u>(2,126)</u>

The following table details the Bank's sensitivity to a 2% increase and decrease in Hong Kong dollars against Renminbi. For 2% weakening of Renminbi against Hong Kong dollars, there would be a decrease in pre-tax loss. For a 2% strengthening of Renminbi against Hong Kong dollars, there would be an equal and opposite impact on the loss.

Foreign exchange risk	Movement in foreign currency	Impact in pre-tax loss	
		2020 HK\$'000	2019 HK\$'000
Renminbi	-2%	Decrease by 23	Decrease by 1,414
	+2%	Increase by 23	Increase by 1,414

The Bank is exposed to US dollar and no sensitivity analysis is prepared as the management considered that the effect is insignificant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(c) Market risk (continued)

ii. Interest rate risk

Interest rate risk in the banking book (“IRRBB”) arises from mismatches in the interest rate profiles of assets, liabilities and capital instruments. Generally, there are repricing, yield curve, option and basis risks. At this stage, the Bank does not carry out proprietary trading and the Bank only has fixed rate product, hence, the Bank’s interest rate risk exposure is contributed by banking book portfolio and the interest rate risk is limited to repricing and yield curve risks.

The Bank applied dispensation from HKMA on not to report IRRBB using the new standardised framework due to the constraint that the Bank lacks sufficient historical data on customer behaviours such as loan repayments, deposit redemptions and responsiveness to movement in rate to enable the modelling required under the new rule to be feasibly carried out.

The Bank measures its IRRBB exposure mainly through the change of Economic Value (“EV”), Net Interest Income (“NII”), Interest Rate Gap (“IRG”), and stress testing. EV, NII and stress testing are monitored on monthly basis and weekly for IRG. Except for saving deposits without a fixed maturity, all the products tenors follow the contractual maturity. The Bank’s interest rate risk is managed by the Treasury Division (first line of defense) and monitored by Market and Liquidity Risk Division (second line of defense).

The Board holds the ultimate responsibilities to the banking book interest rate risk. Asset and Liability Committee (“ALCO”) and Risk Management Committee (“RMC”) have been delegated the authority to manage the risk in accordance with the guidelines and procedures laid down in the market and interest rate risk management policy that has been approved by the Board.

The Bank has internal control process and Internal Audit Department (third line of defense) to support our risk management monitoring. The efficiency and effectiveness of the control process are reviewed regularly to ensure the Bank is in compliance with the regulations and in response to changing market condition.

HK\$ million	31 December 2020		
	HK dollar	US dollar	Renminbi
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	3	–	1
Impact on economic value if interest rates rise by 200 basis points	4	–	–
	<u>7</u>	<u>–</u>	<u>1</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial risk management (continued)

(d) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, “Fair value measurement”. The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At 31 December 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets measured at FVOCI	19,995	–	–	19,995
	<u>19,995</u>	<u>–</u>	<u>–</u>	<u>19,995</u>
	<u><u>19,995</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>19,995</u></u>
	At 31 December 2019			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets measured at FVOCI	433,642	–	–	433,642
	<u>433,642</u>	<u>–</u>	<u>–</u>	<u>433,642</u>
	<u><u>433,642</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>433,642</u></u>

23. Material related party transactions

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

As disclosed in Note 1 to the financial statements, OCFT is the ultimate holding company of the Bank. The subsidiaries owned by OCFT are the fellow subsidiaries of the Bank. The Ping An Group and its subsidiaries are referred as “affiliated companies”.

The Bank entered service agreements with its fellow subsidiaries and affiliated companies and these related companies provided platform development and IT related services to the Bank. The related party transactions were carried out in the normal course of business and at terms negotiated between the Bank and the respective related parties.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Material related party transactions (continued)

Interest income is received from balances placed with a branch of the affiliate company at prevailing market rate.

The Bank entered into the following material transactions with related parties:

	2020 HK\$'000	2019* HK\$'000
Interest income earned from time deposit placed with a branch of the affiliated group	–	6,526
Intangible assets acquired from fellow subsidiaries and an affiliated company	52,629	54,007
IT expenses to a fellow subsidiary and affiliated companies	9,734	4,036

At the end of reporting period, the Bank had the following material outstanding balances with related parties:

	2020 HK\$'000	2019 HK\$'000
Bank balances with the a branch of the affiliated company	–	56,525
Amount due from a fellow subsidiary (Note a)	77	–
Amount due from an affiliated company (Note a)	4,694	–
Amount due to fellow subsidiaries (Note a)	72,069	68,695
Amount due to affiliated companies (Note a)	5,294	2,799

Note a: The outstanding balances are unsecured, non-interest bearing and expected to be settled within one year.

For the year ended 31 December 2020, the Bank has banking transactions with directors and key management personnel of the Bank and their close family members. These transactions are the taking of deposit which are conducted on an arm's length commercial terms in the ordinary course of business, and are not material.

Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. It includes members of the Board of Directors and senior management of the Bank.

	2020 HK\$'000	2019* (restated) HK\$'000
Short-term employee benefits	50,245	23,806
Post-employment benefits	504	271
Share-based compensation	6,893	2,742
	<u>57,642</u>	<u>26,819</u>

The comparative figures has been restated to conform with the current year's presentation.

* From 7 December 2018 (date of incorporation) to 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Share-based compensation

On 7 November 2017, equity-settled share-based compensation plan (the “Share Option Scheme”) was set up by the OCFT with the objective to recognise and reward the contribution of eligible directors, employees and other persons for the growth and development of the OCFT and its subsidiaries.

On 10 September 2019, the Board of Directors of the OCFT approved to amend and restate the equity-settled share-based compensation plan to supplement the Share Option Scheme with performance-based shares to grant (the “Restricted Share Units Scheme”).

Both the Share Option Scheme and the Restricted Share Units Scheme are valid and effective for 10 years from the grant date.

(a) Share Option Scheme

During 2019, share options were granted to directors and employees (“Grantees”) of the OneConnect Group, in which 1,075,000 share options are for directors and employees of the Bank, for the subscription of the new ordinary shares of OCFT.

Subject to the Grantees continuing to be a service provider, 100% of these options will be vested over 4 years upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement.

The options should be exercised no earlier than 12 months after OCFT successfully completes an initial public offering and OCFT’s shares get listed in the stock exchange (“IPO and Listing”) and no later than 8 years from the grant date. The vesting date is determined by the Board of Directors of OCFT.

Movements in the number of share options granted are as follows:

	2020	2019*
At the beginning of the year/period	1,055,000	–
Number of share options		
– Granted	–	515,000
– Transferred (Note a)	–	560,000
– Forfeited	(80,000)	(20,000)
Outstanding at the end of the year/period	<u>975,000</u>	<u>1,055,000</u>

Note a: Refer to employees who was transferred their employment to the Bank during the vesting period. The Bank measured the services received from the employee by reference to the fair value of the equity instruments at the originally grant date, and the proportion of the vesting period the employee served with the Bank.

* From 7 December 2018 (date of incorporation) to 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Share-based compensation (continued)

(a) Share Option Scheme (continued)

Share options outstanding at the balance sheet date have the following expiry dates and exercise prices.

Grant date	Exercise period	Exercise price	Fair value of options	Number of share options as at 31 December 2020
7 November 2017	13 December 2020 – 7 November 2027	RMB 2.00	RMB 0.52	550,000
8 November 2018	13 December 2020 – 8 November 2028	RMB 52.00	RMB 26.00	10,000
1 June 2019	13 December 2020 – 1 June 2029	RMB 52.00	RMB 23.42	355,000
26 July 2019 (Note a)	13 December 2020 – 1 June 2029	RMB 52.00	RMB 23.42	60,000
				975,000
				975,000

Note a: Pursuant to a resolution made during the year, grant date of the share options granted to a recipient of the Bank was modified to 26 July 2019.

Grant date	Exercise period	Exercise price	Fair value of options	Number of share options as at 31 December 2019
7 November 2017	13 December 2020 – 7 November 2027	RMB 2.00	RMB 0.52	550,000
8 November 2018	13 December 2020 – 8 November 2028	RMB 52.00	RMB 26.00	10,000
1 June 2019	13 December 2020 – 1 June 2029	RMB 52.00	RMB 23.42	495,000
				1,055,000
				1,055,000

Valuation of options granted

The fair value of the share option is determined based on fair value of the underlying ordinary share of OCFT using Binomial option-pricing model as at the grant dates. Key assumptions are set as below:

	Date of grant			
	7 November 2017	8 November 2018	1 June 2019	26 July 2019
Discount rate	24.0%	17.0%	17.0%	17.0%
Risk-free interest rate	3.9%	3.6%	3.3%	3.3%
Volatility	51.6%	51.2%	46%	46%
Dividend yield	0.0%	0.0%	0.0%	0.0%

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Share-based compensation (continued)

(a) Share Option Scheme (continued)

The Binomial Model requires the input of highly subjective assumptions. The risk-free rate for periods within the contractual life of the option is based on the China Treasury yield curve in effect at the time of grant. The expected dividend yield was estimated based on the OCFT's expected dividend policy over the expected life of the options. The volatility of its ordinary shares at the date of grant is estimated based on the historical volatility of similar U.S. public companies for a period equal to the expected life preceding the grant date.

(b) Restricted Share Units Scheme

On 10 September 2019, 20,000 restricted share units were granted to an employee of the Bank, at the grant date fair value of RMB 35.22 for each restricted share unit.

Subject to the employee continuing to be a service provider, 100% of these restricted share units will be vested over 4 years upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement. The restricted shares should be vested no earlier than 180 days after the IPO and Listing.

Movements in the number of restricted share units granted are as follows:

	2020	2019*
At the beginning of the year/period	20,000	–
Number of restricted share units		
– Granted (Note a)	20,000	20,000
– Exercised	(2,160)	–
– Forfeited	(28,244)	–
Outstanding at the end of the year/period	9,596	20,000

Note a: During the year, 20,000 restricted share units were granted to an employee of the Bank, which had been forfeited in the same year.

Discounted cash flows method is used to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are estimated. Based on fair value of the underlying ordinary share, Monte Carlo method is used to determine the fair value of the restricted share units as at the grant date. Key assumptions are set as below:

	Date of grant
	10 September 2019
Discount rate	15.0%
Risk-free interest rate	2.9%
Volatility	43.9%
Dividend yield	0.0%

The Monte Carlo method requires the input of highly subjective assumptions. The risk-free rate for periods within the contractual life of the restricted share units is based on the China Treasury yield curve in effect at the time of grant. The expected dividend yield was estimated based on OCFT's expected dividend policy over the expected life of the restricted share units. The volatility of its ordinary shares at the date of grant is estimated based on the historical volatility of similar U.S. public companies for a period equal to the expected life preceding the grant date.

A total of HK\$4,858,000 (2019*: HK\$2,597,000) share-based compensation cost were recognised in the statement of comprehensive income during the year.

* From 7 December 2018 (date of incorporation) to 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Notes to the statement of cash flows

For the purposes of the cash flows statement, cash and cash equivalents comprise the following balances with original maturity of three months or less from the date of acquisition.

	2020 HK\$'000	2019 HK\$'000
Balances with banks and central bank	251,831	86,072
Placements with and advances to banks with original maturity within three months	531,916	–
Investment securities with original maturity within three months	–	433,642
	<u>783,747</u>	<u>519,714</u>

26. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 17 March 2021.

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Appendix I: CORPORATE GOVERNANCE (unaudited)

1. Corporate Governance Practices and Objectives

Ping An OneConnect Bank (Hong Kong) Limited (the “**Bank**”) is fully committed to effective corporate governance in order to safeguard the interest of its stakeholders. The Bank is subject to, and has complied in all material aspects with, the guidelines set out in the Hong Kong Monetary Authority (“**HKMA**”) Supervisory Policy Manual CG-1 Corporate Governance of Locally Incorporated Authorized Institutions for the year ended 31 December 2020.

2. Corporate Ownership Information

The Bank is a wholly-owned subsidiary of OneConnect Financial Technology Co., Ltd. (“**OCFT**”) and a group member of the Ping An Insurance (Group) Company of China (the “**Ping An Group**”). A system of shareholder rights is an integral part of the Bank’s corporate governance system. According to the Articles of Association, shareholders representing at least 5% of the total voting shares of the Bank may request the directors to call a general meeting. All shareholders have the right to vote at the shareholders’ general meeting or written resolutions of members. As at 31 December 2020, the immediate holding company of the Bank was Jin Yi Rong Limited (“**JYR**”), a company incorporated in Hong Kong. JYR is controlled by Jin Yi Tong Limited, being the intermediate holding company of the Bank and is incorporated in the British Virgin Islands. The Bank’s ultimate holding company is OCFT, a company incorporated in the Cayman Islands, and listed in the New York Stock Exchange since 13 December 2019. OCFT is also an associated company of the Ping An Group.

3. The Board and Committees

The Board of Directors of the Bank (the “**Board**”) directs the Bank in the conduct of its affairs and ensures that corporate responsibility and ethical standards underpin the conduct of the Bank’s business. The Board provides sound leadership to the senior management of the Bank (“**Senior Management**”) in setting the strategic vision, direction and long-term goals of the Bank and there is appropriate balance between promoting long-term growth and delivering short-term financial gains. The Board bears the ultimate responsibility for the Bank’s governance, strategy, risk management, financial performance and key personnel decisions. Board meetings are held at least four times a year, with one in each quarter. During the year, the Board held four meetings.

Appendix I: CORPORATE GOVERNANCE (unaudited) (CONTINUED)

Board Composition

The Board currently comprises nine members: four Non-Executive Directors, one Executive Director, and four Independent Non-Executive Directors. All Directors possess appropriate experience and competence to discharge their responsibilities effectively.

Mr. Yip Dicky Peter

Chairman (Non-Executive Director)

Member of: Strategy Committee (Chairman)

Qualifications & Profile

Mr. Yip had served the HSBC Group for 47 years with working experiences in Hong Kong, London, China and USA. During his tenure at HSBC, he was appointed as General Manager of HSBC and Chief Executive of China Business, Director of Bank of Shanghai, Director of Ping An Insurance and Ping An Bank, Executive Vice President of Bank of Communications. Mr. Yip was also former Chief Representative Asia Pacific of Institute of International Finance. Mr. Yip received the Bronze Bauhinia Star awarded by the Hong Kong Special Administrative Region Government and an MBE by the British Government. He was named one of the Ten Outstanding Young Persons of Hong Kong in 1984. He served two terms as a member of Shanghai Committee of the Chinese People's Political Consultative Conference (CPPCC). He is also an Independent Director of Sun Hung Kai Properties Limited, SF Express Co Ltd. He is an honorary advisor to The Hong Kong Institute of Bankers and associated member of the Chartered Institute of Bankers, London.

Ms. Chen Rong

Vice-Chairman (Non-Executive Director)

Member of: Group Projects Committee (Chairman), Audit Committee and Strategy Committee

Qualifications & Profile

Ms. Chen is the Co-General Manager of OneConnect Financial Technology (OCFT) and has served as one of its directors since October 2017. Ms. Chen is also the Chief Executive Officer of OneConnect Financial Technology (Hong Kong) Co., Limited. Prior to joining OCFT, Ms. Chen served as a Vice President of Ping An Bank from April 2014 to September 2017, and she also served as the Chief Financial Officer of Ping An Bank from September 2016 to September 2017. Ms. Chen served as the assistant to the President of Ping An Bank from January 2012 to March 2014. From July 1993 to January 2012, Ms. Chen served in various senior management positions at Shenzhen Development Bank Co., Ltd., the predecessor of Ping An Bank, including as President of Nantou branch, General Manager of the credit department, Executive Director of the credit risk department, Chief Internal Control Executive Officer, Chief Operating Officer and the President of Shenzhen branch. Ms. Chen received her Master's degree in business economics from Zhongnan University of Economics and Law in 1993.

Ms. Tan Sin Yin

Non-Executive Director

Member of: Nomination and Remuneration Committee

Qualifications & Profile

Ms. Tan joined Ping An Group in 2013 and has served as a board director since April 2020. She is currently the Executive Director, Co-CEO, Executive Vice President and Chief Operating Officer of the Group. Ms. Tan is the Chairman of Ping An Technology, and a Director of a number of controlled subsidiaries of the Group including Ping An Bank, Ping An Property & Casualty, Ping An Life, and Ping An Asset Management. Ms. Tan is a Non-Executive Director of the Bank. Besides, she is a non-executive director of Lufax Holding, OneConnect, Ping An Good Doctor and HealthKconnect Medical and Health Technology Management Company Limited. Ms. Tan was the Chief Information Officer of the Group from January 2013 to November 2019, a Vice President of the Group from June 2015 to December 2015, and the Deputy CEO of the Group from October 2017 to November 2018. Prior to joining the Ping An Group, Ms. Tan was a Global Partner of McKinsey & Company. Ms. Tan holds a bachelor's degree in Electrical Engineering and Economics from the Massachusetts Institute of Technology (MIT) and a master's degree in Electrical Engineering and Computer Science from MIT.

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Appendix I: CORPORATE GOVERNANCE (unaudited) (CONTINUED)

Ms. Ip So Lan

Non-Executive Director

Member of: Board Risk Management Committee

Qualifications & Profile

Ms. Ip joined Ping An Group in 2004 and is the Group's Compliance Officer. Ms. Ip was the Assistant to the President of Ping An Life from February 2004 to March 2006, and the Assistant to the President of Ping An Group from March 2006 to January 2011, the Chief Internal Auditor of Ping An Group from March 2006 to January 2021, and the Person-In-Charge of Auditing of Ping An Group from March 2008 to January 2021. Prior to joining Ping An Group, Ms. Ip worked with AIA, Prudential Hong Kong. Ms. Ip holds a bachelor's degree in computing from the Polytechnic of Central London.

Mr. Fung Yuk Lung

Executive Director and Chief Executive

Member of: Strategy Committee

Qualifications & Profile

Mr. Fung has over 20 years of management experience in the banking and financial industries, with a solid track record of entrepreneurial leadership and delivering substantial and sustainable results. Prior to joining the Bank, he worked for Standard Chartered Bank, accumulating a wealth of experience and holding key positions in Retail Banking, Retail Products and Distribution Network functions across Hong Kong, Greater China and North Asia (GCNA). Before Standard Chartered Bank, Mr. Fung was the Chief Executive Officer for PrimeCredit Limited. Mr. Fung constantly seeks to share his knowledge and gives back to the banking sector. To this end, he has served on the boards of a number of financial related institutions and organisations in Hong Kong. He was a board member of Hong Kong Mortgage Corporation from 2016-17 and also 2010-12, a board member of Joint Electronic Teller Services Limited from 2015-17, a board member of EPS Company (HK) Limited from 2013-17, and Chairman of DTC Association from 2010-2011.

Mr. Yeung Tak Bun

Independent Non-Executive Director

Member of: Board Risk Management Committee (Chairman), Strategy Committee

Qualifications & Profile

Mr. Yeung is the former Government Chief Information Officer (head of department, Justice of the Peace); he was responsible for formulation of policies and strategies for Hong Kong's overall digital technology; e-government; cyber-security; development of the digital economy, particularly for information technology industries; and formulation of the blueprint for developing Hong Kong into the world's leading smart city.

He served as the Chief Corporate Development Officer of the Hong Kong Science and Technology Parks Corporation and was responsible for the development strategy of the science park, incubation programmes for start-ups, and nurturing technology enterprises. Mr. Yeung started his career in Silicon Valley and had worked for several high-tech companies. Thereafter, he held several senior management positions in multinational corporations, Hong Kong listed companies and private equity funds, with operations throughout Asia.

Mr. Yeung holds a Bachelor of Science in Electrical Engineering from the University of Texas (Austin), a Master of Science in Electrical Engineering from Purdue University, and an Executive MBA from the Kellogg School of Management of the University of Northwestern in conjunction with the Hong Kong University of Science and Technology.

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Appendix I: CORPORATE GOVERNANCE (unaudited) (CONTINUED)

Ms. Tong Mei Kuen Tommei

Independent Non-Executive Director

Member of: Audit Committee (Chairman), Board Risk Management Committee

Qualifications & Profile

Ms. Tong was the Chief Executive Officer and Chief Financial Officer of TOM Group Limited, from 2003 to 2008. Prior to that, Ms. Tong served as the Chief Financial Officer and Chief Operating Officer of Ping An Insurance (Group) of China, Ltd., a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. Ms. Tong spent 14 years with Arthur Andersen & Co. Ms. Tong is a Fellow of both the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. She obtained a Bachelor's degree in social science with a major in management studies from the University of Hong Kong.

Mr. Shek Lai Him Abraham

Independent Non-Executive Director

Member of: Audit Committee, Nomination and Remuneration Committee

Qualifications & Profile

Mr. Shek is a Non-Executive Director of the Mandatory Provident Fund Schemes Authority. He served as Independent Non-Executive Director of the MTR Corporation Limited, Landing International Development Limited and Hao Tian International Construction Investment Group Limited, and holds directorships at nearly twenty listed companies. He is also the Chairman of the English Schools Foundation. In recognition of his distinguished effort in community services, Mr. Shek was made a Justice of the Peace in 1995, received a Silver Bauhinia Star in 2007 and awarded a Gold Bauhinia Star in 2013. Mr. Shek is an Honorary Member of the Court of The Hong Kong University of Science and Technology. He holds a Bachelor of Arts and a Diploma in Education from the University of Sydney.

Mr. Song Max

Independent Non-Executive Director

Member of: Nomination and Remuneration Committee (Chairman), Board Risk Management Committee, Strategy Committee

Qualifications & Profile

Mr. Song is a venture partner of Pacific Century Group and a Co-founder of Blockdynamics. He was formerly a data scientist in Silicon Valley, Paris, and New York, where he helped to perform data analysis for a Fortune 10 financial institution to satisfy regulatory requirements. Mr. Song received a Bachelor of Science (ScB) in Applied Mathematics from Brown University and a Master of Public Administration at Schwarzman College of Tsinghua University.

Board Committees

To discharge its responsibilities in specific areas, the Board may delegate authority to specialized Board Committees to contribute more efficiently and effectively to the strategic and operational development of the Bank. The composition, roles and functions of the Board Committees are set out below.

(a) Audit Committee ("AC")

AC comprises three members, of whom one is a Non-Executive Director and two are Independent Non-Executive Directors. AC members collectively possess relevant technical expertise and experience in audit practices, financial reporting and accounting. Chaired by an Independent Non-Executive Director, AC reviews the Bank's internal financial controls to identify, assess, manage and monitor financial risks and to review the Bank's internal control systems. AC also reviews financial reporting and the internal audit function, oversee the work of the external auditors, discusses matters raised by internal auditors and external auditors and ensures that audit recommendations are implemented accordingly. During the year, AC held three meetings.

Appendix I: CORPORATE GOVERNANCE (unaudited) (CONTINUED)

(b) Board Risk Management Committee (“**BRMC**”)

BRMC comprises four members of whom one is a Non-Executive Director and three are Independent Non-Executive Directors. BRMC members collectively possess relevant technical expertise and experience in risk disciplines that are adequate to enable them to discharge their responsibilities effectively. Chaired by an Independent Non-Executive Director, BRMC exercises oversight on behalf of the Board of the overall risk appetite, risk exposure, risk management strategy and risk culture, makes recommendations to the Board on the Bank’s Risk Appetite Statement and approves on behalf of the Board the Bank’s Internal Capital Adequacy Assessment Process. BRMC reviews the appropriateness, effectiveness and implementation of the Bank’s risk management systems and controls. During the year, BRMC held four meetings.

(c) Nomination and Remuneration Committee (“**NRC**”)

NRC comprises three members of whom one is a Non-Executive Director and two are Independent Non-Executive Directors. Chaired by an Independent Non-Executive Director, NRC identifies individuals suitably qualified to become members of the Board or key Senior Management, and recommends such individuals to the Board. It also reviews the structure, size and composition of the Board and its effectiveness by annual evaluation and makes recommendations to the Board with regard to any adjustments that are deemed necessary for improvement. It is responsible for reviewing the framework and policies for remuneration, determining remuneration packages of all individual Executive Directors and Senior Management. NRC is also responsible for the bank culture aspects in ensuring that the Bank maintains a sound corporate culture that supports prudent risk management and that all levels of staff in the Bank have a strong commitment to achieving high ethical and professional standards and positive customer outcomes. During the year, NRC held two meetings.

(d) Strategy Committee (“**SC**”)

SC comprises five members of whom one is the Executive Director, two are Non-Executive Directors and two are Independent Non-Executive Directors. SC monitors the general industry environment in which the Bank operates and keeps informed in areas essential to making significant contribution to strategy formulation for the Bank. The SC is responsible to make recommendations to the Board in respect of the Bank’s strategic planning process, review the Bank’s strategic plan, monitor the progress and identify strategic possibilities for further development. During the year, SC held one meeting.

(e) Group Projects Committee (“**GPC**”)

GPC comprises four members of whom one is the Executive Director, one is Non-Executive Director and two are Senior Management members. GPC supports the Bank’s near and long term business and operational strategies, sets up and oversees different task forces to tackle specific projects or areas of cooperation with the OneConnect Group and/or the Ping An Group. The GPC discusses, reviews and make recommendations on the Bank’s collaboration on, amongst other things, the business of FinTech solutions development and delivery. During the year, GPC held eleven meetings.

Board Evaluation

2020 was the first year of annual evaluation for the Board, and a questionnaire was sent to the Board to collate the Directors’ views on Board composition, bank culture, quality of information provided to the Board, risk management and effectiveness of Board committees. The Board discussed the results of the evaluation and found them to be satisfactory.

Appendix I: CORPORATE GOVERNANCE (unaudited) (CONTINUED)

4. Management committees

In addition to Board level committees, the Board has authorized the Executive Director to set up various management level committees to oversee and implement business strategies, risk management systems and internal controls. Under the umbrella of the Management Committee (“**ManCo**”) which is chaired by the Executive Director, there are six ManCo sub-committees namely, (i) Risk Management Committee, (ii) Asset and Liability Committee, (iii) Compliance Committee, (iv) Technology Committee, (v) Customer Selection Committee, and (vi) Disciplinary Action Committee. Senior Management of the Bank consists of a group of highly competent and experienced individuals responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank in accordance with the business strategy, regulations, risk appetite and policies approved by the Board.

5. Code of Conduct

The Bank adopts a high standard of ethical conduct and professional competence. Every employee has to adhere to the code of conduct through the employee handbook when dealing with customers, business partners, regulators and colleagues. The code of conduct sets out professional standards and corporate values to promote ethical, professional and responsible behavior within the Bank.

6. Bank Culture

The bedrock of the Bank’s culture is a set of strong and clearly defined values that are set by the Board, and act as a guide to the Bank’s employees in the way they conduct themselves in their daily work. The Board has endorsed the adoption of the Bank’s Mission and Culture Statement and ensure adherence to it. The Board also reviewed the update on implementation of HKMA’s guidance on bank culture reform and the progress update on the Bank’s culture action dashboard.