livi bank
Annual Report 2021

livi bank

Contents

A Chinese translation of this annual report is available on request. Copies are also available in English and Chinese on the Bank's website at www.livibank.com.

livi bank

livi Ethos and Highlights

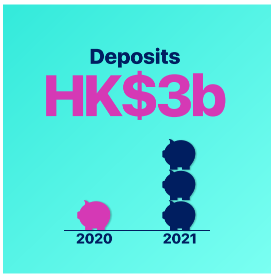
We aim to be recognized as the leading Virtual Bank in Hong Kong with a unique digital financial and lifestyle offering. Key to this will be creating a rewarding and delightful digital banking experience for our customers.

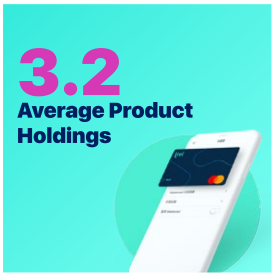
Connecting with our customers, understanding their needs and earning their trust is core to the way we work at livi. This will enable us to offer inspired, personalized and exciting products that help our customers to achieve life aspirations.

To achieve our goals means working with heart. We empower our Colleagues by creating an open, vibrant and inspiring workplace that stimulates creativity, nurtures collaboration and instils pride.

We recognize that today's businesses have a greater purpose. That means also serving the Community by promoting a sustainable, inclusive and socially responsible agenda that helps to change peoples' lives for the better.

livi at a Glance *(31 December 2021 unless stated)*





Shareholder Support

livi enjoys the strong backing of its shareholders, BOC Hong Kong (Holdings), JD Technology and the Jardine Matheson Group, which provide a unique range of benefits in terms of financial strength, technological expertise and marketing excellence.

中銀香港(控股)有限公司 BOC HONG KONG (HOLDINGS) LIMITED JDT 京东科技 Jardines

livi bank

livi Ethos and Highlights

Current Products and Services*

liviSave (HK$, US$, RMB)	Endowment Savings Plan†
livi Debit Mastercard (Apple Pay and Google Pay supported)	Policy Financing
livi PayLater	SME Franchise Financing
UnionPay Payment (Hong Kong, Macao and Mainland)	Token Connect with Mastercard
liviScan: – QR Code FPS Payment – QR Code UnionPay Payment – QR Code Cash Withdrawal in Hong Kong	yuu points linkage
	'Shake shake' instant rewards
	UnionPay U-plan e-coupon linkage

*As at 18 March 2022
†Coming soon

Recognition of livi

- livi App ranking second in Hong Kong and third in Asia in the 2021 Mobile Banking Benchmark by Sia Partners
- Voted as 'Best Virtual Bank' at the Hong Kong Living Awards 2021 by Hong Kong Living
- Earned a 'Gold Certificate' at the Privacy-Friendly Awards 2021 from the Office of the Privacy Commissioner for Personal Data
- Received the 'Financial Technology Banking Services Award of Excellence' at the Leadership Business Award organised by Now Business News Channel
- Earned the '01 Fintech Awards 2021 – Banking and Insurance Services Category' from HK01
- Awarded 'Excellent Payment Experience in Virtual Bank' at the iMoney Brand Award 2021
- Won the 'Hong Kong Business Technology Excellence Awards 2021 – Fintech – Banking' from Hong Kong Business Magazine
- 'Second Runner-up' in the 'Cyber Attack and Defence Elite Training' 2021 simulation, jointly organized by The Cyber Security and Technology Crime Bureau of the Hong Kong Police and Cyberbit.
- Named 'Excellent Brand of Fintech – Virtual Bank' by Metro Finance's Hong Kong Leaders' Choice Brand Awards 2021

livi bank

Strategic Overview

Excellent progress was achieved in livi's first full year of operation as we pursued our vision of being recognized as the leading Virtual Bank in Hong Kong with a unique digital financial and lifestyle offering. We are intent on delivering an innovative, secure digital banking experience to our Hong Kong customers and, in doing so, bringing delights to their everyday lives.

A Good Start

livi took its integrated all-in-one banking platform, the livi App, to the next level in 2021 by rolling out inventive products and services that aim to give customers an unparalleled experience that goes beyond banking. Our strong performance was even more remarkable against a challenging business environment that our community has endured throughout the year.

Underpinning our customer-centric business model are our transparent and straight forward approach, compelling products and services, ecosystem partnerships, strong technology backbone, agile working methodology, big data capabilities, expert colleagues, and robust risk and governance infrastructure. livi has also benefited from the ongoing support of its shareholders, BOC Hong Kong (Holdings), JD Technology and the Jardine Matheson Group.

The speed with which the new products and services were launched through our internationally recognized livi App has enabled us to expand our customer base with a healthy growth trajectory. Not least was livi PayLater, where livi was the first bank to introduce the "buy now pay later" concept in Hong Kong, which has generated strong customer interest.

We also understand that earning and maintaining our customers' trust is essential. So, it has been important to us to ensure that we provide a reliable, efficient and safe banking experience to our customers.

Creating a leading Virtual Bank

As livi moves into its third year, we are continuing to invest in all aspects of our operations. Our research conducted during 2021 showed an increased acceptance of the benefits offered by virtual banks in Hong Kong, and our goal is to leverage this sentiment with additional new products and services, coupled with a move into new sectors, in 2022.

With our natural customer base of Hong Kong Millennials expecting their banking experience to be aligned with their lifestye choices, we are looking to meet their needs by empowering delightful experiences in their everyday living.

Our move into wealth management will be an important feature in 2022, following the granting of our Insurance Agency Licence, and will be led shortly by our first Endowment Saving Plan. We are also extending our activities into the important SME sector of Hong Kong's business community with an initial franchise financing solution that has just been launched.

Strategic Overview

Depth of Talent

Good leaders are key to a successful business, and we are pleased that we have made several senior appointments to livi's management team in 2021. We now have a strong lineup with deep and extensive experience in technology, commercial and consumer sectors, in addition to finance and banking. This experienced leadership team is inspiring all colleagues to work together towards the agreed business goals in this exciting new Fintech sector.

On 4 February 2021, Mr. Mark Greenberg stepped down from the Board and was succeeded by Mr. Y.K. Pang. We would like to thank Mark for the significant contribution he made since the formation of livi.

The Meaning in a Name

On 21 January 2022, the Bank took on the Chinese name 理慧銀行有限公司 in addition to its English name. This name, 理慧, aligns us closer to our community in Hong Kong and reflects a key element at the heart of the livi promise. 理 brings together the concepts of putting in order and caring, with 慧 meaning wisdom and intelligence. Combined they can be seen as 理財智慧, or 'financial wisdom'. At livi, we believe it is important to empower people to manage their finances intelligently, grow their wealth, and ultimately realize their life goals. livi's Chinese name reflects this.

Outlook

In the rapidly evolving business environment that we have experienced since livi first received its banking license in 2019, we have had to maintain an agile and responsive footing. We anticipate that these skills will be required for the foreseeable future as livi continues to build and expand its product lineup and ecosystem partnerships. Overall, we see significant opportunities for livi in the year ahead to create greater scale in its business.

And as livi continues its journey, we will also play our role in contributing to Hong Kong's fintech development and the important goal of financial inclusion, while helping to cement Hong Kong's position as an international financial centre.

livi bank

Business Review

livi was established in 2019 when it was granted one of Hong Kong's eight virtual banking licences by the Hong Kong Monetary Authority ('HKMA'). Since our public launch in August 2020, livi has been making excellent progress in bringing a refreshing and innovative banking experience to the customers in Hong Kong.

Financial Review

In 2021, we have continued to invest in growth, particularly customer acquisition, product and service offerings, and ongoing technology development. Inevitably, this led to a loss of HK$667 million being recorded for the year. Full details of the results for the year ended 31 December 2021 and the state of the Bank's affairs as at that date are set out within the financial statements.

Business Progress

An important milestone for livi was reached when we welcomed our 200,000th customer just prior to the year end. We believe that the strong growth trajectory achieved in 2021 is a testament to our compelling product and service offerings. Our customers have been actively using the Bank's products, with over 80% taking up at least two.

Our level of deposits was also a good indicator of the customer growth and product acceptance when it reached some HK$3 billion at the year end. It shows the trust customers have to place their money with livi and their willingness to diversify their usage of the Bank's innovative offerings. It also shows that livi is building an engaging relationship with its customers, not least by complementing their everyday needs with our enjoyable 'livi moments' that offer rewarding experiences. This has been helped by the user-friendliness of the livi App, which was ranked in second position for mobile banking apps in Hong Kong.

Maintaining our momentum in 2021, livi launched a number of well received new products and ecosystem offers through the livi App. These ranged from multi-currency deposits in liviSave, ATM QR cash withdrawal, FPS bill payment and app-to-app payment, to the virtual livi Debit Mastercard. Our partnership with *yuu* – Hong Kong's biggest reward scheme run by DFI – was well received, with nearly half of livi's customers binding their yuu rewards with the livi App.

livi teams run agile development sessions, where creative ideas undergo an express prototyping process combining the principles of Build-Measure-Learn, Design Thinking and Agile Development to come up with stretching solutions to enhance our product and service offering.

One particularly important new product launch was livi PayLater, when in May livi was the first bank to introduce the "buy now pay later" concept in Hong Kong. The launch generated strong demand with applications reaching some 60,000 by the year end, especially from the customer segment featuring Millennials who see the benefits of a smarter way of managing their spending. The launch was led by a successful 'above-the-line' marketing campaign to introduce the product and create brand awareness.

livi has also been actively building our ecosystem relationships to broaden the range of benefits for our customers, which was supported by the effective use of data modelling. These included rewards and offers being provided jointly with yuu, where customers earn yuu rewards points through the livi app in familiar retail outlets, including supermarkets, convenience stores, restaurant outlets and health and beauty stores.

Our customers expect both the advantages and convenience of a virtual bank, coupled with trust and security that comes with a Hong Kong regulated bank. At livi we pride ourselves with our secure new technology backbone and our expert compliance functions, combining the best people and the latest RegTech.

Technology and the use of data are important drivers for the enhanced customer experience and cost efficiencies in livi. They underpin our constantly evolving livi App that is recognized as a leader in ease of customer interface. They power our fast and painless account opening process that uses data modelling to alleviate the usual frustrations. They underpin our ability to provide instant loan approvals sympathetically tailored to customer needs. Digital data is used actively in fraud prevention, helping us to create a secure banking environment. And our technology backbone and interfaces facilitate multiple payment channels that align with customer spending patterns.

We are participating fully in the HKMA's Open API Journey and have launched our own API Portal. We see this offering significant possibilities for enabling greater personalized services and options for our customers. Since January 2022, our customers can add value to their Octopus Cards on the Octopus app through links to the livi App, and the next API phase will be for customers to benefit from the more seamless integration of financial services platforms through the pre-approved sharing of customer account information and banking transactions.

New Initiatives for 2022

New and compelling initiatives are in active development, which are aligned with our strategic focus and are built around the concepts of convenience, simplicity, and flexibility.

We now have in place our licence to offer Insurance products, which is an important first step in our launch of endowment savings plan offerings. Wealth management products are a key element in our development strategy as our research shows that many within our prime target customer sector recognize the need to plan for their futures and are seeking products tailored to their needs.

livi is also to offer a one-stop banking services and tailored solutions for the underserved SME sector in Hong Kong. Our first product is now being trialed with selected entrepreneurs with a view to providing simple, flexible and responsive financing solution that supports the development of franchise activities.

We believe that the GBA presents significant potential for Hong Kong-based virtual banks to offer products and services. It is one of China's fastest growing regions and is expected to be further integrated with Hong Kong through the PRC's policies such as Wealth Management Connect and Insurance Connect. livi's shareholders already have a strong presence and active networks in the GBA and are, therefore, in a good position to offer livi unique advantages for business development at the right time.

Embracing ESG

livi believes that Environmental, Social and Governance ('ESG') considerations are an integral part of our business, and we intend to play our part fully as a member of the Hong Kong community. As a virtual bank, livi's very ethos encompasses ESG principles through digital banking and support for the community through financial inclusion.

We are promoting financial inclusion and advancing innovative fintech development in Hong Kong with our easy-to-use app; transparent and open approach, low costs with no account opening fee or minimum balance requirement; and our innovative products and services designed around our customers' daily needs. Our ethos is aligned with the principles set out in the Treat Customers Fairly Charter, endorsed by the HKMA, of which we are a signatory.

livi is also committed to ensuring that its operations comply fully with all applicable environmental laws and regulations. Our office operations abide by the 'reduce, reuse and recycle' principles, and we conserve energy by adopting energy saving technologies. We also adopt a fully 'paperless' policy where no papers are printed or filed throughout the Bank, which is a substantial departure from traditional practices and can save a significant amount of paper in our operations.

livi employees also believe in embracing sustainable practices in our business and playing an active part in the community. They have participated in a series of initiatives – including a virtual run, a university student competition, learning more about sustainability principles through visiting an organic farm managed by the Hong Kong Federation of Youth Groups, and volunteering with not-for-profit Food Angel to pack meals for people in need. A donation drive raising awareness and supporting Food Angel is ongoing, which in 2021 raised over HK$178,000, including HK$119,000 directly donated by our customers through the livi App.

livi contributed HK$35,000 to promote financial inclusion through virtual banking to the community alongside the Virtual Banking Committee of the Hong Kong Association of Banks ('HKAB'). In addition, livi contributed a further HK$100,000 to HKAB in support of the Hong Kong Government's COVID vaccination drive.

People

We believe in investing in our people by helping them to achieve personal growth and nurturing their potential, which includes employee wellness programmes that ensure our people lead a balanced and healthy life. We provide training and development for our employees to ensure that they are equipped with the necessary skills and knowledge in their work, and regular townhalls are held to align our people at all levels to our business goals, consistent with our belief in an engaging and transparent culture. All these initiatives are underpinned with ensuring we balance the need for innovation and agile thinking with the security and trust customers demand from their bank.

An inspiring initiative for the whole livi team was bringing on board brilliant, young students as interns and providing training opportunities for them. livi colleagues at all levels imparted knowledge about virtual banking and shared best practices and skills in the digital financial world, while gaining unique insights to the demands and expectations of a new generation.

At livi, we would like to thank all our colleagues for their inspiration, hard work and dedication over the past year by taking the Bank to the next level and creating an excellent digital banking experience for our customers.

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Leadership

Board of Directors

Mr. ZHONG Xiangqun
Chairperson and Non-Executive Director

Mr. ZHONG, aged 52, was appointed as Chairman and Director in 2019. He is chief operating officer of the BOC Hong Kong overseeing the Bank-wide Operation Department, Information Technology Department, Innovation and Optimisation Centre and Corporate Services Department. He is also a director of BOC Credit Card (International) Limited and director of Hong Kong Interbank Clearing Limited. Prior to joining BOC Hong Kong, Mr. ZHONG served as general manager of E-Finance Department of Bank of China in charge of the development of e-finance business, covering mobile payment, e-business, e-financing and big data application. Joining BOC in 1994, Mr. ZHONG has held management positions in Information Technology Department, Personal Banking Unit, Card Centre and Innovation & Development Department, etc. He was previously a director of China UnionPay and a member of China Financial Standardisation Technical Committee.

Mr. ZHONG graduated from Peking University with a Bachelor's degree in Information Science specialising in Software and a Master's degree in Applied Mathematics.

Mr. SUN Dawei
Executive Director & Chief Executive

Mr. SUN, aged 47, was appointed as Director and Chief Executive in 2020. He has over 20 years' experience in the banking industry, having held a number of senior positions at the Bank of China. He has worked in BOC Hong Kong from 2016, where his responsibilities included management oversight of the bank's branch network, consumer banking and SME business, as well as personal banking and wealth management products. Mr. SUN's past roles have covered consumer banking, innovation and digital transformation, providing him with insights in local consumer behaviour and trends. He has also participated in a number of major innovative projects, including branch transformation and the extension of Greater Bay Area account opening facilities for Hong Kong people.

Mr. SUN graduated from University of International Business and Economics with a Bachelor of Science in Economics, obtained a Master of Science in Finance from Tsinghua University, and an Executive MBA from the City University London.

Mr. GUO Weimin
Non-Executive Director

Mr. GUO, aged 54, was appointed as a Director in 2019. He is chief researcher of Bank of China and a board member of BOC Expresspay Company Limited. He joined Bank of China in 2009 and served as deputy chief engineer in the Information Technology Department, deputy general manager in Distribution Management Department and general manager in the E-finance Department in Bank of China's head office. He also served as a board member of Bank of China Consumer Finance Company Limited.

In Bank of China, Mr. GUO has led various projects, including 'BOC Headline', Mobile Banking, a New Generation of Group Customer Service, and Net Guardian Anti-Fraud system, and won a number of awards such as the First Prize in the Central Bank's Science and Technology Progress Award. He has held several professional positions, including in the National Internet Finance Association of China, Internet Society of China and China Financial Standardization Technical Committee. He is currently a member of the Beijing Municipal Committee of the Chinese People's Political Consultative Conference.

Mr. GUO graduated from Peking University with a Bachelor's degree in Electronic and Information System and obtained a Doctorate and Master's degree in Electrical and Computer Engineering from University of Maryland.

Mr. LIANG Yiming
Independent Non-Executive Director

Mr. LIANG, aged 54, was appointed as a Director in 2019. He has more than 25 years of financial services industry experience and more than 10 years of senior management experience taking up supervisory roles and management responsibilities. He was a managing director and a management committee member of Huatai Financial Holdings (HK) Limited from 2014 to 2019, prior to that he was with Standard Chartered Bank, Shinsei Bank, JPMorgan etc. His expertise covers commercial and investment banking, derivatives products and financial securities trading, and asset management. He is a financial products innovator and expert in FinTech developments.

Mr. LIANG obtained a Bachelor of Science degree in Physics from University of Science and Technology of China, a Doctorate in Physics from University of California, San Diego and was a Postdoctoral Research Fellow at Lawrence Berkeley National Lab & UC Berkeley.

Mr. PANG Yiu Kai
Non-Executive Director

Mr. PANG, aged 61, was appointed as a Director in February 2021. He is deputy managing director and chairman of Hong Kong of Jardine Matheson Holdings Limited. He has held a number of senior executive positions in the Jardine Matheson Group, including chief executive of Hongkong Land Holdings Limited from 2007 to 2016. Mr. Pang is also deputy chairman of Jardine Matheson Limited, and a director of Gammon China Limited, Hongkong Land Holdings Limited, Jardine Matheson (China) Limited, Mandarin Oriental International Limited and Greatview Aseptic Packaging Company Limited.

Mr. PANG is chairman of the Hong Kong Tourism Board, chairman of the Hong Kong Management Association, a member of the Council and General Committee of the Hong Kong General Chamber of Commerce and the Employers' Federation of Hong Kong.

Leadership

Mr. PANG obtained an Honorary Doctorate in Education from The Education University of Hong Kong, an Honorary Doctorate from University of Edinburgh, an MBA from University of Edinburgh and a Bachelor of Science degree in Civil Engineering from University of Nottingham.

Mr. Nicholas Robert SALLNOW-SMITH
Independent Non-Executive Director

Mr. SALLNOW-SMITH, aged 72, was appointed as a Director in 2019. He is an independent non-executive director of Wynn Macau Limited and a non-executive director of London-listed UCP Plc. He was chairman and an independent non-executive director of Link Asset Management Limited between 2007 and 2016, where he chaired the finance and investment, and nominations committees. He was chief executive of Hongkong Land Holdings Limited from 2000 to 2007, having served as finance director from 1998 to 2000, and was group treasurer of Jardine Matheson from 1993 to 1998. He began his career in London in Her Majesty's Treasury, and then held a number of financial positions before moving to Hong Kong.

Mr. SALLNOW-SMITH was convenor of the Hong Kong Association of Corporate Treasurers; a council member of the Treasury Markets Association; chairman of the Manpower Committee of the Hong Kong General Chamber of Commerce; chairman of the General Committee of The British Chamber of Commerce in Hong Kong; and a member of the Financial Reporting Council of Hong Kong. He is active in the community and was an executive committee member of the Hong Kong Youth Arts Foundation and a member of the Board of Governors of Hong Kong Philharmonic Society.

Mr. SALLNOW-SMITH was educated at Gonville & Caius College, Cambridge and the University of Leicester, and is a Fellow of the Association of Corporate Treasurers. He holds M.A. (Cantab) and M.A. (Soc. of Ed.) Degrees.

Mr. SHEN Jianguang
Non-Executive Director

Mr. SHEN, aged 51, was appointed as a Director in 2019. He is vice president and chief economist of JD Technology. Previously he served as chief economist of Mizuho Securities Asia Limited and was senior economist at China International Capital Corporation and European Central Bank successively. Before that, he held economist positions at IMF, OECD and Central Bank of Finland, in addition to being a visiting scholar at PBOC. He participates in expert consultation meetings of major economic decision-making departments of the country.

Mr. SHEN is a visiting professor at the School of Economics of Fudan University, the School of International Economics of Fudan University, a standing member of China Society of Public Finance, a member of China Society for Finance & Banking, Executive President of Moganshan Institute and a member of the China Chief Economist Forum. He was offered postdoctoral fellowship in Economics at the Massachusetts Institute of Technology, holds a Doctorate and a Master's degree in Economics from the University of Helsinki, and obtained his Bachelor degree at Fudan University.

Ms. Barbara SHIU
Independent Non-Executive Director

Ms. SHIU, aged 66, was appointed as a Director in 2019. She is an independent non-executive Director of HKR International Limited. Ms. SHIU has over 35 years' experience in financial services and has held several senior positions in financial institutions, including the Bank of China group. She was the general manager of BOC Hong Kong in charge of the Operational Risk and Compliance Department when she retired in 2014. She was also the chairman of Hong Kong Securities Institute, a director of Hong Kong Deposit Protection Board and Financial Dispute Resolution Centre, a member of the International Advisory Committee of China Securities Regulatory Commission, a member of the Product Advisory Committee and Investor Education Advisory Committee of Securities and Futures Commission of Hong Kong as well as a member of risk management committee of Hong Kong Exchanges and Clearing Limited. Ms SHIU also has a long record of public service in Hong Kong and is active in not-for-profit organisations.

Ms. SHIU obtained an Honours Bachelor of Science degree and an MBA, both from University of Toronto.

Management Team

David Sun
Chief Executive

Carol Hung
Chief Product Officer and Alternate Chief Executive

Gary Lam
Chief Technology Officer

Stan Ngai
Chief Financial Officer

Spencer Leung
Chief Risk Officer

Eric Lin
Chief Marketing & Business Development Officer

livi bank

Directors' Report

The Directors are pleased to submit their annual report together with the audited financial statements for the year ended 31 December 2021 of Livi Bank Limited ('livi' or the 'Bank').

Financial Review

The Bank recorded a loss of HK$667 million for the year ended 31 December 2021, and the state of the Bank's affairs as at that date are set out on pages 16 to 53 within the financial statements. Further details of the Bank's activities are set out in the Strategic Overview and Business Review on pages 3 to 7.

The Directors do not recommend any payment of dividend in respect of the year under review.

Chinese Name and Place of Business

On 21 January 2022, the Bank registered the Chinese name of 理慧銀行有限公司, in addition to its English name.

The Bank is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 28 Floor, Oxford House, 979 King's Road, Quarry Bay, Hong Kong.

Directors

The Directors serving during the financial year and up to the date of this report:

Mr. ZHONG Xiangqun (Chairperson)
Mr. SUN Dawei (Chief Executive Officer)
Mr. Mark Spencer GREENBERG (to 4 February 2021)
Mr. GUO Weimin
Mr. LIANG Yiming *
Mr. PANG Yiu Kai (from 4 February 2021)
Mr. Nicholas Robert SALLNOW-SMITH *
Mr. SHEN Jian Guang
Ms. SHIU Barbara *

*Independent Non-Executive Directors

There being no provision in the Bank's Articles of Association requiring the retirement by rotation of Directors, all existing Directors will continue in office.

Directors Service Contracts

No Director has a service contract with the Bank which is not determinable within one year without payment of compensation other than the normal statutory compensation.

Directors' rights to acquire shares or debentures

At no time during the year under review was the Bank a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Directors' interests in transactions, arrangements and contracts

Save as disclosed in note 6 to the financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Bank was a party during the year under review.

There are no financial, business, family or other material or relevant relationships between members of the Board.

Indemnity of Directors

The Directors have been indemnified individually by the Bank against all liabilities incurred by them to the extent permitted by the Bank's Articles of Association and the Companies Ordinance, Chapter 622 of the Laws of Hong Kong. The Bank has also maintained insurance for the benefit of Directors against liability which may lawfully be insured by it.

Deposit Protection

livi is a member of the Deposit Protection Scheme. Eligible deposits taken by livi are protected by the scheme up to a limit of HK$500,000 per depositor.

Share Capital

There were no changes in the share capital of the Bank during the year under review.

Major Share Ownership

The Bank is a wholly-owned subsidiary of Livi Holdings Limited, which is a joint venture among: BOC Hong Kong (Holdings) Limited, which holds a 44% interest; Jingdong Technology Holding Co., Ltd (through JD New Orbit Technology (Hong Kong) Limited) which holds a 36% interest; and the Jardine Matheson Group (through JSH Virtual Ventures Holdings Limited) which holds a 20% interest.

Debentures

No debentures were issued by the Bank during the year under review.

Equity-linked agreements

No equity-linked agreements were issued by the Bank during the year or subsisted at the end of the year.

Management Contracts

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

Corporate Governance

The Bank is committed to maintaining high standards of corporate governance to safeguard the interests of all of its stakeholders. As a licenced bank in Hong Kong, livi abides by the regulatory requirements set by the HKMA and all relevant laws of Hong Kong, including the Personal Data (Privacy) Ordinance. With effective oversight and control, the Bank has complied with the provisions issued by the HKMA in the SPM Module CG-1 on "Corporate Governance of Locally Incorporated Authorized Institutions" throughout the year under review.

a) The Board of Directors

The Board is at the core of the Bank's corporate governance framework and is responsible for supervising the management of business and affairs of the Bank with due regard to ensuring operational effectiveness and financial soundness, achieving sustained shareholder value and enhancing corporate governance. The Bank seeks to maintain in the Board an appropriate mix of skills, experience and diversity that are relevant to the Bank's strategy, governance and business.

The Board provides strategic guidance and effective oversight of the Management. The Board authorizes the Management to implement the strategies as approved by the Board, and the Management is responsible for day-to-day operations of the Bank and reports to the Board.

Upon appointment to the Board, Directors are provided with comprehensive induction training to ensure that they have thorough understanding of the Bank's operations and governance policies, as well as their roles and responsibilities. Thereafter, Directors participate in regular training programmes that provide them with the opportunity to keep abreast of current trends and issues facing the Bank, while enabling them to update and refresh their skills and knowledge needed for the performance of their duties.

The Board recognizes that conducting regular evaluation of its performance is essential to good corporate governance and board effectiveness. Following the evaluations of the Board, Board Committees and the individual Directors by an independent external consultant in both 2020 and 2021, actions were taken to identify and address areas requiring enhancement and attention going forward.

During the year, five Board meetings were held.

b) Board Committees

The Board has established and delegated the oversight of certain major functional areas to Board Committees to assist it in carrying out its duties and responsibilities. The Board has three standing Board Committees, namely Audit Committee, Board Risk Committee and Nomination and Remuneration Committee.

- **Audit Committee ("AC")**

  The AC assists the Board in meeting its responsibilities for the integrity of the Bank's financial reporting including the effectiveness of the internal control and risk management systems and for monitoring the effectiveness and objectivity of internal and external auditors. The Internal Audit Department, which has direct access to the AC, is responsible for providing independent assurance regarding the existence of adequate and effective internal control environment adopted by the Bank. The remit of the AC concerns the whole of the Bank's businesses and it has oversight responsibility for financial reporting, internal control and audit processes of the Bank. The AC has responsibility for overseeing the Bank's whistleblowing policy.

  The AC consists of five Directors, three of which including the Committee chairperson are INEDs. During 2021, four AC meetings were held.

- **Board Risk Committee ("BRC")**

  The Board has, amongst other things, the responsibility to determine the Bank's risk appetite and risk tolerances, and to ensure that the Bank establishes and maintains an appropriate and effective risk management framework. The BRC provides advice and assists the Board in fulfilling such responsibilities. The BRC also assists the Board to discharge its duty to oversee, on an ongoing basis, the risk management framework and approve the risk metrics, and also advises the Board on risk-related issues and aspects as requested by the Board or, in the opinion of the BRC, require Board attention.

  The BRC consists of five Directors, three of which including the Committee chairperson are INEDs. During 2021, four BRC meetings were held.

- **Nomination and Remuneration Committee ("NRC")**

  The NRC is responsible for reviewing the selection procedures, standards and qualification of Directors and senior management of the Bank and making recommendations to the Board. When reviewing the selection of Directors, the NRC is required to evaluate the appropriate diversity of skills, backgrounds, knowledge and experience on the Board as well as consider the independence requirements for the appointment of INEDs. The NRC also reviews remuneration plans for Directors and senior management, putting forward recommendations to the Board and supervising the implementation plan. The NRC also assists the Board in fulfilling its oversight responsibility relating to human resources strategy, corporate culture etc.

  The NRC consists of four Directors, three of which including the Committee chairperson are INEDs. During 2021, four NRC meetings were held.

Directors' Report

c) The Chief Executive ("CE") and the Management Committee ("MC")

The Board has delegated to the CE the authority to manage the day-to-day business and affairs of the Bank, subject to such specific delegations and limits that the Board makes from time to time. The CE may sub-delegate such authority and power to such members of the Management as he shall determine from time to time.

The MC is established under the CE to oversee other important business and controls, as well as day-to-day risk in the Bank on an on-going basis. The MC provides organizational direction on behalf of the Board and advises the Board on decisions and business matters ranging from strategy planning, policy and procedures and overall risk management.

Six sub-committees have also been established by the MC and delegated with the authority to support the MC in discharging its functions, including Asset and Liability Committee, New Product Committee, Procurement Committee, Information Technology Committee, Data Governance Committee, and Risk Management & Internal Control Committee.

d) Risk Appetite

Through the Board, the Bank takes a proactive and prudent approach in having a sound and robust risk management framework that provides a holistic and systematic approach for identification, assessment, monitoring and reporting of risks. It is designed to be dynamic with the intent of fostering the right risk culture and responds promptly and effectively in the constantly evolving business environment.

The Board is responsible for determining the Bank's overall risk strategy and governance and maintenance of a sound system of risk management and internal controls in accordance with market practices and regulatory requirements. The Board reviews the adequacy of the resources involved in establishing the risk management framework across the Bank and monitors the independence of risk management function throughout the Bank.

e) Code of Conduct and Whistleblowing Policy

To ensure the Bank operates to the highest standards of ethical conduct and professional competence, all colleagues are required to follow the Bank's Code of Conduct. In accordance with applicable regulatory guidelines and other industry best practices, the Code sets out the ethical standards and values that all colleagues are expected to adhere to and covers various legal, regulatory and ethical issues. Regular communications to colleagues are used to remind them of the rules and ethical standards set out in the Code and the requirement to adhere to them.

To reinforce a culture of good business ethics and governance, the Bank has adopted a whistleblowing policy which requires colleagues to report their concerns about improprieties and misconduct in relation to the Bank through a well-defined and independent channel. The AC has responsibility for overseeing the effectiveness of the procedures and for considering any matters that might be raised. The objective of this policy is to encourage the reporting of such matters with confidence and that colleagues when making any reports will be treated fairly.

Related Party Transactions
Material related party transactions undertaken during the year under review are disclosed in note 24 to the financial statements.

Complex Structures
The Bank does not hold any structured entity as of the date of the financial statements.

Auditor
The financial statements for the year ended 31 December 2021 have been audited by Ernst & Young who will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for reappointment.

On behalf of the Board

Zhong Xiangqun
Chairman
18 March 2022

EY安永

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

To the member of LIVI BANK LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Livi Bank Limited (the "Bank") set out on pages 16 to 53, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 the directors 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 of the Bank 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 of the Bank either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the member of LIVI BANK LIMITED

(Incorporated in Hong Kong with limited liability)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Certified Public Accountants
Hong Kong
18 March 2022

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 HK$'000	2020 HK$'000
Operating income			
Interest income		4,978	16,620
Interest expense		(12,834)	(3,524)
Net interest income/(expense)	4	**(7,856)**	**13,096**
Fee and commission income		13,721	651
Fee and commission expense		(6,942)	(1,195)
Net fee and commission income/(expense)		**6,779**	**(544)**
Net foreign exchange gains		**407**	**1,069**
TOTAL OPERATING INCOME/(LOSS)		**(670)**	**13,621**
Operating expenses			
Staff costs	5	(226,522)	(173,241)
Legal and professional fees		(20,174)	(23,170)
Depreciation on property, plant and equipment	14	(38,954)	(37,425)
Amortisation of intangible assets	15	(75,274)	(43,673)
Other operating expenses	7	(300,791)	(174,285)
TOTAL OPERATING EXPENSES		**(661,715)**	**(451,794)**
Net operating loss before net releases/(charges) of impairment losses		**(662,385)**	**(438,173)**
Net releases/(charges) of impairment losses	8	(4,338)	241
LOSS FOR THE YEAR		**(666,723)**	**(437,932)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income ("FVOCI"):			
– Fair value changes		(530)	(18)
– Impairment losses recognised		139	8
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(391)**	**(10)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(667,114)**	**(437,942)**

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	Notes	2021 HK$'000	2020 HK$'000
Assets			
Cash and balances with banks	10	1,362,654	191,611
Placements with banks	11	204,796	556,856
Financial investments	12	2,319,335	1,223,334
Loans and advances to customers	13	88,159	–
Property, plant and equipment	14	104,944	137,507
Intangible assets	15	235,990	201,946
Prepayments and other assets		34,918	31,091
TOTAL ASSETS		**4,350,796**	**2,342,345**
Liabilities			
Customer deposits	16	2,976,908	320,382
Lease liabilities		54,235	67,968
Other liabilities and provisions		126,042	93,270
TOTAL LIABILITIES		**3,157,185**	**481,620**
NET ASSETS		**1,193,611**	**1,860,725**
Equity			
Share capital	17	2,500,000	2,500,000
Reserves		(1,306,389)	(639,275)
TOTAL EQUITY		**1,193,611**	**1,860,725**

Zhong Xiangqun
Chairman

Sun Dawei
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital HK$'000	Accumulated losses HK$'000	FVOCI reserve HK$'000	Total HK$'000
At 1 Jan 2020	2,500,000	(201,413)	80	2,298,667
Loss for the year	–	(437,932)	–	(437,932)
Change in fair value on financial assets at FVOCI	–	–	(18)	(18)
Impairment losses recognised	–	–	8	8
Total comprehensive loss for the year	–	(437,932)	(10)	(437,942)
At 31 Dec 2020	**2,500,000**	**(639,345)**	**70**	**1,860,725**
At 1 Jan 2021	2,500,000	(639,345)	70	1,860,725
Loss for the year	–	(666,723)	–	(666,723)
Change in fair value on financial assets at FVOCI	–	–	(530)	(530)
Impairment losses recognised	–	–	139	139
Total comprehensive loss for the year	–	(666,723)	(391)	(667,114)
At 31 Dec 2021	**2,500,000**	**(1,306,068)**	**(321)**	**1,193,611**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 HK$'000	2020 HK$'000
Cash flows from operating activities		
Loss for the year	**(666,723)**	**(437,932)**
Adjustments for non-cash items:		
Depreciation on property, plant and equipment	38,954	37,425
Amortisation of intangible assets	75,274	43,673
Net charges/(releases) of impairment losses	4,338	(241)
Interest expenses on lease liabilities	2,460	2,990
	(545,697)	(354,085)
Changes in operating assets and liabilities		
Increase in placements with banks with an original maturity beyond three months	(25,000)	(170,000)
Increase in financial investments with an original maturity beyond three months	(399,448)	(823,487)
Increase in loans and advances to customers	(92,198)	–
Increase in prepayments, accrued interest and other assets	(3,871)	(14,179)
Increase in customer deposits	2,656,526	319,975
Increase/(decrease) in other liabilities and provisions	32,772	(43,508)
Net cash flows generated from/(used in) operating activities	**1,623,084**	**(1,085,284)**
Cash flows from investing activities		
Purchase of equipment, furniture and fixtures	(6,391)	(13,560)
Purchase of intangible assets	(109,318)	(101,572)
Net cash flows used in investing activities	**(115,709)**	**(115,132)**
Cash flows from financing activities		
Payment of lease liabilities	(16,193)	(15,584)
Net cash flows used in financing activities	**(16,193)**	**(15,584)**

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 HK$'000	2020 HK$'000
Net increase/(decrease) in cash and cash equivalents		1,491,182	(1,216,000)
Cash and cash equivalents at beginning of year		978,601	2,194,601
Cash and cash equivalents at end of year	19	**2,469,783**	**978,601**
Cash flows from operating activities included			
– Interest received		2,204	11,777
– Interest paid		7,709	76

There were no cash and cash equivalents pledged at the end of the year.

NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2021

1. GENERAL INFORMATION

Livi Bank Limited (the "Bank") operates a virtual banking business in Hong Kong after being granted the license by the HKMA on 27 March 2019. The address of the Bank's registered office is 28th floor, Oxford House, 979 King's Road, Quarry Bay, Hong Kong.

Information on the Bank's structure is provided in note 18. Information on other related party relationships of the Bank is provided in note 24.

2.1 BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for financial assets at FVOCI which have been measured at fair value. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand unless otherwise stated.

(i) New standards and interpretations adopted during the year

The following revised accounting standards became effective from 1 January 2021. None of the revised accounting standards have a material impact on the financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

2.1 BASIS OF PREPARATION (CONTINUED)

(ii) Issued but not yet effective Hong Kong Financial Reporting Standards

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

Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[2, 3]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[1]
Annual Improvements to HKFRSs accompanying 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples HKFRS 16, and HKAS 41[1]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendment to HKAS 8	Definitions of Accounting Estimates[2]
Amendment to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction [2]

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

3 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

The Bank expects to adopt the amendments when they become effective. The amendments are not expected to have any significant impact on the Bank's financial statements.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Functional currency

The financial statements are presented in Hong Kong dollars, which is the Bank's functional currency.

(b) Foreign currencies

Transactions in foreign currency are recorded at the rate of exchange on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary assets and liabilities are measured at historical cost that are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in profit or loss depending on where the gain or loss on the underlying item is recognised.

(c) Financial instruments

(i) Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as placements with banks, are measured at amortised cost. In addition, all financial liabilities are measured at amortised cost. The Bank accounts for regular way purchased or acquired amortised cost financial instruments using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. They are normally derecognised when the rights to receive cash flows from the asset have expired.

(ii) Financial assets measured at FVOCI

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise debt instruments. They are recognised on the trade date, that is, the date that the Bank commits to purchase the asset. They are subsequently remeasured at fair value and recognised in other comprehensive income until the assets are sold. They are normally derecognised when they are either sold or redeemed. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in profit or loss. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(e) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Bank has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised from the statement of financial position when and only when the obligation specified in the contract is discharged, cancelled or expires.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of financial assets

The Bank recognises an allowance for Expected Credit Losses ("ECLs") for all financial assets including balances and placements with banks, loans and advances to customers and debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

Financial instruments are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

(g) Offsetting of financial instruments

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

In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue recognition

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

(i) Interest income and expense

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

(ii) Fee and commission income and expense

Fee and commission income and expense results from transaction-based arrangements in which the service is charged a fee for the execution of transactions. Such revenues primarily arise from interchange fee and incentive income. Fee and commission income is recognised on trade date when the performance obligation is satisfied or is recognised based on the completed progress of the performance obligation over time, when applicable.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to write off the cost of items of property, plant and equipment to their residual values, if any, over their estimated useful lives as follows:

Leasehold improvements	Over the shorter of the lease terms or 5 years
Computer equipment	3 – 5 years
Office equipment and furniture and fixtures	2 – 3 years

Residual values, useful lives and the depreciation method are reviewed annually.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the disposal or retirement of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets

Intangible assets include both purchased and internally generated software and are stated at cost less accumulated amortisation and impairment losses.

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

Intangible assets with finite lives are amortised over the shorter of the license period or a useful life of 3 to 5 years and are subject to impairment testing (see impairment of non-financial assets).

(k) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with banks and Exchange Fund Bills which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the 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 year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank has lease contracts for various items of properties used in its operations as lessee. Leases of properties have lease terms between 3 and 7 years. Generally, the Bank is restricted from assigning and subleasing the leased assets.

The Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section “Impairment of non-financial assets”.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include the penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

The Bank uses its incremental borrowing rate at the lease commencement date to calculate the present value of lease payments as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Leases (continued)

The Bank as a lessee (continued)

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

(o) Provisions and commitments

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation, with its carrying amount reflecting the present value of those cash flows, where the effect of discounting is material.

The commitment is any legal obligation to potentially make or receive cash payments or transfer cash. Commitments are not recognised in the financial statements. Disclosure is made unless the probability of settlement is remote.

(p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pension scheme

The Bank operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance (“MPFSO”) for all of its employees. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Bank in an independently administered fund. The employees are entitled to receive 100% of the Bank’s employer contributions upon retirement, early retirement or termination of employment after completing 10 years of service. In addition to the Bank’s employer mandatory contributions, employees with 3 to 9 years of service are entitled to receive the Bank’s employer voluntary contributions at a scale ranging from 30% to 90% upon termination of employment for reasons other than summary dismissal. All the Bank’s employer contributions received by employees are subject to the MPFSO.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Related parties

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

(I) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Bank;

(ii) has significant influence over the Bank; or

(iii) is a member of the key management personnel of the Bank or of a parent of the Bank;

Or

(II) the party is an entity where any of the following conditions applies:

(i) the entity and the Bank are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Bank are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;

(vi) the entity is controlled or jointly controlled by a person identified in (I);

(vii) a person identified in (I) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

(i) Leases – Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in its leases and therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank "would have to pay", which requires estimation when no observable rates are available (such as for a subsidiary that does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

(ii) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2021 was HK$1,558,116,000 (2020: HK$891,126,000). Further details are contained in note 9 to the financial statements.

(iii) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the existing market conditions as well as forward-looking estimates at the end of each reporting period. The assessment of the risk of default and expected loss rates is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(iv) Capitalisation of intangible assets

Capitalised software and work-in-progress are intangible assets developed with external parties. Management exercises judgement in determining that the intangible asset meets the criteria to be capitalised as intangible assets in accordance with applicable accounting framework. Management also exercises judgement in determining the proportion of costs that are directly attributable to the development of intangible assets.

(v) Amortisation of intangible assets and depreciation on property, plant and equipment

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

4. NET INTEREST INCOME/(EXPENSE)

	2021 HK$'000	2020 HK$'000
Interest income from financial assets measured at amortised cost	3,961	10,768
Interest income from financial assets measured at FVOCI	1,017	5,852
Total interest income	4,978	16,620
Interest expense from financial liabilities measured at amortised cost	(10,374)	(534)
Interest expense on lease liabilities	(2,460)	(2,990)
Total interest expense	(12,834)	(3,524)
Net interest income/(expense)	(7,856)	13,096

5. STAFF COSTS

	2021 HK$'000	2020 HK$'000
Salaries and bonuses	211,093	159,009
Pension costs – defined contribution plans	5,930	4,561
Others*	9,499	9,671
Total staff costs	226,522	173,241

* Includes shareholders' recharges for secondment staff

6. DIRECTORS' REMUNERATION

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

	2021 HK$'000	2020 HK$'000
Directors' fees	1,800	1,800
Other emoluments		
– Salaries and short-term employee benefits	4,331	3,184
– Pension scheme contributions	–	5
	6,131	4,989

7. OTHER OPERATING EXPENSES

	2021 HK$'000	2020 HK$'000
Information technology expenses*	108,012	106,287
Marketing expenses	163,005	46,787
Auditor's remuneration	1,798	835
Others	27,976	20,376
Other operating expenses	300,791	174,285

** Includes the expenses incurred for software development including user acceptance testing and system interface testing not qualified for capitalisation.*

8. NET CHARGES/(RELEASES) OF IMPAIRMENT LOSSES

	2021 HK$'000	2020 HK$'000
Cash and balances with banks and placements with banks	215	(391)
Financial investments		
at FVOCI	139	8
at amortised cost	(99)	142
Loans and advances to customers (Note 13)	4,039	–
Other assets	44	–
Net charges/(releases) of impairment losses	4,338	(241)

9. INCOME TAX

No provision for Hong Kong profits tax has been made in current year as the Bank did not generate any assessable profits arising in Hong Kong during the year.

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

	2021		2020	
	HK$'000	%	HK$'000	%
Loss before tax	(666,723)		(437,932)	
Tax loss at the statutory tax rate	(110,009)	(16.5)	(72,259)	(16.5)
Estimated tax effect of non-deductible expenses	19,249	2.9	14,841	3.4
Estimated tax effect of unrecognised temporary differences	(19,293)	(2.9)	(19,537)	(4.5)
Estimated tax effect of tax losses not recognised	110,053	16.5	76,955	17.6
Tax charge at the effective rate	–	–	–	–

The Bank had tax losses arising in Hong Kong of approximately HK$1,558,116,000 (2020: HK$891,126,000), that are available indefinitely for offset against future taxable profits of the Bank. Deferred tax assets have not been recognised in respect of these losses as there is not sufficient evidence that taxable profits will be available against which the tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2021

10. CASH AND BALANCES WITH BANKS

	2021 HK$'000	2020 HK$'000
Cash and balances with banks – Stage 1	1,362,996	191,642
Less: Allowances for impairment losses – Stage 1	(342)	(31)
	1,362,654	191,611

11. PLACEMENTS WITH BANKS

	2021 HK$'000	2020 HK$'000
Placements with banks – Stage 1	204,803	556,959
Less: Allowances for impairment losses – Stage 1	(7)	(103)
	204,796	556,856

12. FINANCIAL INVESTMENTS

	2021 HK$'000	2020 HK$'000
At FVOCI:		
Debt securities – Stage 1	1,990,048	499,999
Less: Revaluation losses	(541)	(11)
	1,989,507	499,988
At amortised cost:		
Certificate of deposits – Stage 1	329,872	723,488
Less: Allowances for impairment losses – Stage 1	(44)	(142)
	329,828	723,346
	2,319,335	1,223,334

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2021

13. LOANS AND ADVANCES TO CUSTOMERS

	2021 HK$'000	2020 HK$'000
Loans and advances to customers	92,148	–
Less: Allowances for impairment losses	(3,989)	–
	88,159	–

Reconciliation of allowances for impairment losses is as follows:

Allowances for impairment losses	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2021	–	–	–	–
Net charge for the year	3,186	163	690	4,039
Write-offs	–	–	(50)	(50)
At 31 December 2021	3,186	163	640	3,989
Charge to income statement (Note 8)				4,039

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2021

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Computer equipment HK$'000	Office equipment and furniture and fixtures HK$'000	Right-of-use assets HK$'000	Total HK$'000
Cost					
At 1 Jan 2021	21,503	72,318	936	89,881	184,638
Additions	–	6,391	–	–	6,391
At 31 Dec 2021	21,503	78,709	936	89,881	191,029
Accumulated depreciation					
At 1 Jan 2021	4,776	21,898	364	20,093	47,131
Charge for the year	4,567	18,873	304	15,210	38,954
At 31 Dec 2021	9,343	40,771	668	35,303	86,085
Net book value					
At 31 Dec 2021	12,160	37,938	268	54,578	104,944
Cost					
At 1 Jan 2020	12,907	67,970	320	89,881	171,078
Additions	8,596	4,348	616	–	13,560
At 31 Dec 2020	21,503	72,318	936	89,881	184,638
Accumulated depreciation					
At 1 Jan 2020	820	3,943	59	4,884	9,706
Charge for the year	3,956	17,955	305	15,209	37,425
At 31 Dec 2020	4,776	21,898	364	20,093	47,131
Net book value					
At 31 Dec 2020	16,727	50,420	572	69,788	137,507

15. INTANGIBLE ASSETS

The Bank recognised intangible assets which included separately acquired software and systems developed with external parties.

	Software HK$'000
Cost	
At 1 Jan 2021	252,434
Additions	109,318
At 31 Dec 2021	361,752
Accumulated amortisation	
At 1 Jan 2021	50,488
Amortisation for the year	75,274
At 31 Dec 2021	125,762
Net book value	
At 31 Dec 2021	235,990
Cost	
At 1 Jan 2020	150,862
Additions	101,572
At 31 Dec 2020	252,434
Accumulated amortisation	
At 1 Jan 2020	6,815
Amortisation for the year	43,673
At 31 Dec 2020	50,488
Net book value	
At 31 Dec 2020	201,946

16. CUSTOMER DEPOSITS

	2021 HK$'000	2020 HK$'000
Savings accounts	2,976,908	320,382

17. SHARE CAPITAL

	2021 HK$'000	2020 HK$'000
Issued and fully paid:		
2,500,000,000 ordinary shares	2,500,000	2,500,000

18. GROUP INFORMATION

Holding company

The immediate and ultimate holding company of the Bank is Livi Holdings Limited which owns 100% of the Bank's ordinary shares.

Entities with significant influence over the Bank

The ordinary shares of the immediate holding company are owned by BOC Hong Kong (Holdings) Limited (44%), JD New Orbit Technology (Hong Kong) Limited (36%) and JSH Virtual Ventures Holdings Limited (20%). The shareholders of the immediate holding company of the Bank are considered as the entities with significant influence over the Bank.

19. CASH AND CASH EQUIVALENTS

(a) Analysis of balances of cash and cash equivalents

	2021 HK$'000	2020 HK$'000
Cash and balances with banks	1,362,996	191,642
Placements with banks with an original maturity within three months	9,803	386,959
Exchange Fund Bills with an original maturity within three months	1,096,984	400,000
	2,469,783	978,601

(b) Reconciliation with the statement of financial position

	2021 HK$'000	2020 HK$'000
Cash and balances with banks	1,362,654	191,611
Placements with banks	204,796	556,856
Financial investments	2,319,335	1,223,334
Amounts shown in the statement of financial position	3,886,785	1,971,801
Less: Amounts with an original maturity of beyond three months	(1,417,433)	(993,303)
Add: Allowances for expected credit losses	431	103
Cash and Cash equivalents in the statement of cash flows	2,469,783	978,601

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2021

20. CURRENT ASSETS

Included within total assets, the carrying amounts with maturity date due within 1 year are considered as current assets:

	2021		
	Current assets HK$'000	Non-current assets HK$'000	Total HK$'000
Cash and balances with banks	1,362,654	–	1,362,654
Placements with banks	204,796	–	204,796
Financial investments	2,316,215	3,120	2,319,335
Loans and advances to customers	74,614	13,545	88,159
Property, plant and equipment	–	104,944	104,944
Intangible assets	–	235,990	235,990
Prepayments and other assets	24,003	10,915	34,918
Total assets	3,982,282	368,514	4,350,796

	2020		
	Current assets HK$'000	Non-current assets HK$'000	Total HK$'000
Cash and balances with banks	191,611	–	191,611
Placements with banks	556,856	–	556,856
Financial investments	1,223,334	–	1,223,334
Property, plant and equipment	–	137,507	137,507
Intangible assets	–	201,946	201,946
Prepayments and other assets	25,401	5,690	31,091
Total assets	1,997,202	345,143	2,342,345

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2021

21. CURRENT LIABILITIES

Included within total liabilities, the carrying amounts with maturity date due within 1 year are considered as current liabilities:

	2021		
	Current liabilities HK$'000	Non-current liabilities HK$'000	Total HK$'000
Customer deposits	2,976,908	–	2,976,908
Lease liabilities	13,932	40,303	54,235
Other liabilities and provisions	115,849	10,193	126,042
Toal liabilities	3,106,689	50,496	3,157,185

	2020		
	Current liabilities HK$'000	Non-current liabilities HK$'000	Total HK$'000
Customer deposits	320,382	–	320,382
Lease liabilities	13,734	54,234	67,968
Other liabilities and provisions	86,125	7,145	93,270
Toal liabilities	420,241	61,379	481,620

22. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the year are as follows:

Financial assets

	2021		
	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Cash and balances with banks	–	1,362,654	1,362,654
Placements with banks	–	204,796	204,796
Financial investments	1,989,507	329,828	2,319,335
Loans and advances to customers	–	88,159	88,159
Accrued interest and other assets	–	16,311	16,311
	1,989,507	2,001,748	3,991,255

	2020		
	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Cash and balances with banks	–	191,611	191,611
Placements with banks	–	556,856	556,856
Financial investments	499,988	723,346	1,223,334
Accrued interest and other assets	–	10,517	10,517
	499,988	1,482,330	1,982,318

Financial liabilities

	Financial liabilities at amortised cost	
	2021 HK$'000	2020 HK$'000
Customer deposits	2,976,908	320,382
Lease liabilities	54,235	67,968
Other liabilities	115,887	85,935
	3,147,030	474,285

23. FAIR VALUE OF ASSETS AND LIABILITIES

Financial instruments measured at fair value – fair value hierarchy

Financial assets

	2021			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Debt securities at FVOCI	1,698,081	291,426	–	1,989,507

	2020			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Debt securities at FVOCI	499,988	–	–	499,988

At 31 December 2021 and 2020, the Bank's financial assets and financial liabilities at amortised cost are primarily repayable within 12 months. The carrying amounts of these financial assets and financial liabilities approximate their fair values.

24. RELATED PARTY TRANSACTIONS

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

	2021 HK$'000	2020 HK$'000
Interest income	219	1,366
Operating expenses	56,176	65,976
Net purchase of intangible assets	7,697	18,103

Outstanding balances with entities of significant influence over the Bank:

	2021 HK$'000	2020 HK$'000
Cash and balances with banks	22,147	36,699
Placements with banks	9,804	–
Other assets	823	5,642
Other liabilities	8,071	12,366

(b) Key management personnel remuneration

Key management personnel of the Bank are directors and senior management having authority and responsibility for planning, directing and controlling the activities of the Bank. Their remunerations are as follows:

	2021 HK$'000	2020 HK$'000
Salaries and short-term employee benefits*	21,734	13,082
Pension scheme contributions	608	269
	22,342	13,351

* Included shareholders recharges for secondment staff in 2020

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's principal financial instruments comprise cash and balances with banks, placements with banks, financial investments and loans and advances to customers. The Bank has various other financial liabilities such as customer deposits, lease liabilities and other liabilities, which arise directly from its operations.

The main risks arising from the Bank's financial instruments are market risk, interest rate risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk management

Market risk is the risk of loss in the Bank's on- and off- balance sheet positions resulting from adverse movements in market prices and rates. The Bank manages market risk according to the Bank's risk appetite and pre-defined strategy, supported by a well-established risk management regime and related measures.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional units perform their duties and responsibilities to manage the Bank's market risk. Risk Management Department is the unit primarily responsible for managing market risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the market risk profile and compliance of internal policies and limits.

The Bank has established indicators and limits to identify, measure, monitor and control market risk. These limits are subject to appropriate internal approval and are monitored regularly.

The Bank's major foreign currency exposures include USD and RMB. The following table is the foreign currency position of the Bank prepared in accordance with the HKMA Return "MA(BS)6: Return of Foreign Currency Position":

	2021		2020	
	USD HK$ Million	RMB HK$ Million	USD HK$ Million	RMB HK$ Million
Net long / (short) position	7	6	8	27

At 31 December 2021, if HKD had strengthened / weakened 5% against RMB with all other variables held constant, the Bank would have made an additional loss / gain of HK$320,000 (2020: HK$1,360,000). Under the linked exchange rate system, USD is considered to have limited currency risk.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk management

Interest rate risk means the risk to the Bank's earnings and economic value arising from movements in interest rates and term structures of the Bank's asset and liability position. The major types of interest rate risk exposed to the Bank are:

- Gap risk: changes in the interest rates on instruments of different maturities;
- Basis risk: imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics; and
- Option risk: exercise of interest rate option derivatives or optional elements embedded in assets, liabilities and/or off-balance sheet instruments which could alter the level and timing of corresponding cash flows.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional units perform their duties and responsibilities to manage the Bank's interest rate risk. Risk Management Department is the main responsible unit in managing interest rate risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the interest rate risk profile and compliance of internal policies and limits.

The Bank sets up indicators and limits to identify, measure, monitor and control interest rate risk. These limits are subject to appropriate internal approval and are monitored regularly.

Change in Net Interest Income ("ΔNII") and Economic Value of Equity ("ΔEVE") assess the impact of interest rate movement on the Bank's net interest income and Tier 1 capital respectively. The methods and assumptions used for the calculation of ΔNII and ΔEVE are in accordance with the HKMA's SPM IR-1. The following table illustrates the impact of a 200 basis point parallel rate shock up/down of the yield curves on the Bank's earnings and economic value of equity.

	Increase / (Decrease) in Net Interest Income over the next 12 months		Increase / (Decrease) in Economic Value of Equity	
	2021	2020	2021	2020
	HK$ Million	HK$ Million	HK$ Million	HK$ Million
200 basis point parallel rate shock up of yield curves:				
HK Dollar	9	25	(11)	(7)
US Dollar	–	–	–	–
200 basis point parallel rate shock down of yield curves:				
HK Dollar	(9)	(25)	11	7
US Dollar	–	–	–	–

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk management

Liquidity risk is defined as the risk that the Bank does not have available sufficient financial resources, in the short, medium or long term, to meet its obligations, or can only access those resources at excessive cost.

The Bank's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. The Bank builds and maintains deposits and obtains funding from the interbank market where necessary to diversify the funding source. The Bank has also formulated a contingency funding plan that is tested regularly.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional departments or units perform their duties and responsibilities to manage the Bank's liquidity risk. Risk Management Department is the unit primarily responsible for managing liquidity risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the liquidity risk profile and compliance of internal policies and limits.

The Bank has established indicators and limits to identify, measure, monitor and control liquidity risk. These limits are subject to appropriate internal approval and are monitored regularly.

The maturity profile of the financial liabilities of the Bank at the end of the reporting year, based on the contractual undiscounted payments, is as follows:

	2021				
	Repayable on demand HK$'000	1-3 months HK$'000	3-12 months HK$'000	Over 12 months HK$'000	Total HK$'000
Customer deposits	2,976,908	–	–	–	2,976,908
Lease liabilities	–	4,048	11,792	42,767	58,607
Other liabilities	63,237	48,960	–	3,690	115,887
	3,040,145	53,008	11,792	46,457	3,151,402

	2020				
	Repayable on demand HK$'000	1-3 months HK$'000	3-12 months HK$'000	Over 12 months HK$'000	Total HK$'000
Customer deposits	320,382	–	–	–	320,382
Lease liabilities	–	4,048	12,146	58,607	74,801
Other liabilities	53,480	31,813	–	642	85,935
	373,862	35,861	12,146	59,249	481,118

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk Management

Credit risk management is to maximise the Bank's risk-adjusted rate of return by properly controlling the Bank's credit risk exposure.

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures may exists throughout the lending, trading and investment activities of the Bank, including both on- and off-balance sheet transactions. The credit risk management and control of the Bank are centrally managed by a credit risk management team, which reports regularly to the Chief Executive, Board Risk Committee and/or Board of Directors.

The Bank formulates policies and procedures to identify, measure, assess, monitor, control, and report on credit risk; development of which are based on robust assessment of the Bank's business activities, strategies and risk appetite. Credit policies cover identified material risks (both financial and non-financial), and comply with regulatory guidelines and statutory requirements. These guidelines are reviewed and enhanced regularly in response to market changes, statutory requirements and effectiveness of risk management processes.

Risk Management Department is responsible for implementing the credit risk strategy approved by the Board Risk Committee and developing policies and procedure for identifying, measuring, monitoring and controlling credit risk in all the Bank's credit activities.

The maximum exposure of the Bank's financial assets equals to the amount disclosed in the statement of financial position.

For cash and balances with banks, inter-bank placements and investments in debt instruments issued by banks and corporates, credit risk arises from potential default of the counterparties. To mitigate the risk exposure therein, the Bank's policy is to place such funds with selected financial institutions with strong credit ratings by international-rating agencies.

For loans and advances to customers, the Bank adopts loan classification criteria which divides credit assets into five categories with reference to the HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Bank's recoverability of the loan principal and interest. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk Management (continued)

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment. The Bank is relying heavily on available security. This would include loans where some loss of principal or interest is possible after taking account of the "net realisable value" of security, and rescheduled loans where concessions have been made to a customer on interest or principal such as to render the loan "non-commercial" to the Bank.

"Doubtful" represents loans where collection in full is improbable and the Bank expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after exhausting all collection efforts such as realisation of collateral, institution of legal proceedings, etc.

Loans and advances with a specific repayment date are classified as overdue when respective principal or interest remains unpaid on due dates.

Loans and advances repayable by regular instalments are classified as overdue when an instalment payment remains unpaid on due dates.

Loans and advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment not been made per instruction; or when outstanding individual loans and advances have remained in excess over the approved credit limit but have not been rectified on time nor been given excess approval by the Bank.

Loans and advances are considered as default when single or multiple events taken place have adversely impaired the estimated future cash flows of the borrower or counterparty. For exposures already past due for more than 90 days or that the borrower is unlikely to repay in full their obligations to the Bank, they will be classified as credit-impaired and classified as Stage 3 accordingly, with lifetime expected credit losses to be recognised.

Evidence that a particular loan or advance is credit-impaired include observable data about the following events:

- Significant financial difficulty faced by the borrower, either caused by macro economic environment or own operating conditions;

- Repayment of principal and/or interest been overdue and net realisable value of security is insufficient to cover the payment of principal and accrued interest;

- serious deficiencies in loan repayment foreseen, such as default, death, bankruptcy or liquidation of the borrower or guarantor, or if the borrower's whereabouts are unknown;

- Failure to honour repayment per terms and conditions under restructured loans.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2021

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk Management (continued)

Gross loans and advances to customers before impairment allowances and loan commitments are analysed by internal credit grade and stage classification as follows:

	2021			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
On-balance sheet exposure				
Pass	90,994	–	–	90,994
Special mention	–	514	–	514
Substandard or below	–	–	640	640
Impairment allowances	(3,186)	(163)	(640)	(3,989)
Loans and advances to customers	87,808	351	–	88,159
Off-balance sheet exposure				
Pass	690,565	–	–	690,565
Loan commitments	690,565	–	–	690,565

26. LOAN COMMITMENTS

At 31 December, the Bank had the following outstanding commitments:

	2021 HK$'000	2020 HK$'000
Loan commitments which are unconditionally cancellable	690,565	–

27. CAPITAL MANAGEMENT

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

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

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

28. CAPITAL COMMITMENTS

The Bank has the following outstanding capital commitments not provided for:

	2021 HK$'000	2020 HK$'000
Authorised and contracted for but not provided for	11,962	7,344

The above capital commitments mainly relate to commitments to purchase computer equipment and software.

29. EVENTS AFTER THE REPORTING YEAR

There have been no events after the reporting date that would require disclosure in these financial statements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2022.

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