



Livi Bank

Annual Report

2020

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

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Chinese translation

A Chinese translation of Annual Report is available upon request. The report is also available, in English and Chinese, on the Bank's website at www.livi.com.

REPORT OF THE DIRECTORS

The Directors are pleased to submit their annual report together with the audited financial statements for the year ended 31 December 2020 of Livi Bank Limited (“livi” or the “Bank”).

Business Review

The Bank launched its virtual banking offering to the public on 12 August 2020, having been granted one of Hong Kong’s eight virtual banking licences by the Hong Kong Monetary Authority (“HKMA”) in 2019. In what has quickly become a very competitive digital banking environment in the city, we aim to offer our customers a delightful and rewarding digital-first banking experience that caters to the everyday needs of the people of Hong Kong.

livi is backed by BOC Hong Kong (Holdings), JD Technology and the Jardine Matheson Group, which together bring to livi a unique range of benefits in terms of financial strength, technological expertise and marketing excellence.

On livi’s debut, we offered a simple product range that allowed customers to familiarise themselves with our virtual banking services, and we are now starting to introduce new products and services as we develop and expand livi’s offer. Important to our strategy is building a business ecosystem that goes beyond financial products, working with various partners to enhance the customer experience and benefits.

The livi app was well received on launch, when it was one of the most downloaded financial apps on the Google Play store and on the Apple App store in Hong Kong. As of 31 December 2020, the Bank’s growing customer base had already exceeded 41,000 participants, and livi is continuing to invest in promotional offers in 2021 to build our customer community.

A major milestone in the development of livi’s business ecosystem was the launch of our partnership with the yuu Rewards Club in November 2020. This rewards programme is the biggest in Hong Kong and is run by Dairy Farm, a member of the Jardine Matheson Group. yuu covers brands familiar to Hong Kong people that revolve around their everyday needs. This

tie-up provides livi customers with opportunities to gain yuu Points, as well as a seamless experience in recording their yuu Points in-store within the livi app and then switching to the QR Payment function with just one click.

livi also saw good growth in deposits as customers benefited from promotional interest rate offers as we extended our market share, while the number of daily QR payment transactions made by our customers has shown steady growth.

As a licenced bank in Hong Kong, livi abides by the regulatory requirements set by the HKMA, as well as relevant laws of Hong Kong, including the Personal Data (Privacy) Ordinance.

The prospects for livi in 2021 remain promising as we start to roll out new product offerings designed to support the everyday needs of our customers, although competition in the sector is expected to remain intense. Research we have conducted has also shown an increasing willingness by people in Hong Kong to embrace digital services in the face of the current pandemic, and livi intends to play its role fully in providing such services.

At livi, we would like to recognise all our colleagues for their hard work and dedication over the past year by bringing livi to life and providing an excellent digital banking experience for our customers.

Financial Review

The Bank recorded a loss for the year as it invested in its launch and ongoing development. Full details of loss for the year ended 31 December 2020 and the state of the Bank’s affairs as at that date are set out on pages 7 to 11 within the financial statements.

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

REPORT OF THE DIRECTORS (CONTINUED)

Community Participation

Sustainability is increasingly a key business driver and, while livi is just the start of its journey, we intend to play our part fully as a member of the Hong Kong community. As a virtual bank, livi's ethos encompasses sustainability through digital payments and community through financial inclusion.

While our direct use of consumable resources is limited, it is our policy to adopt sustainable banking operations. We reduce energy consumption by promoting and adopting innovative energy saving technologies, we use sustainable fixtures and fittings in our offices, and limit waste by upholding the "reduce, reuse and recycle" principles. We are committed to ensuring that our operations comply fully with all applicable environmental laws and regulations.

We look to nurture our colleagues by providing them with award-winning inspirational office environments, while supporting the development of young people in our society with internship programmes designed to build knowledge and skills in the digital financial world.

We are reaching out to NGOs in Hong Kong to seek ways that we and our people can participate and give back directly to the community. During the year, we supported the Early Psychosis Foundations through the proceeds of a virtual run that we sponsored to welcome in the new year, while we have also sponsored a Corporate Governance Conference in Hong Kong, recognising the fundamental need for good governance in all that we do.

Change of Name and Place of Business

The name of the Bank was changed by special resolution with effect from 15 June 2020 from Livi VB Limited to Livi Bank Limited.

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

Share Capital

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

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.

Directors

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

Mr. ZHONG Xiangqun (Chairperson)
Mr. SUN Dawei (Chief Executive Officer) (appointed on 6 March 2020)
Mr. Mark Spencer GREENBERG (resigned on 4 February 2021)
Mr. GUO Weimin
Mr. LIANG Yiming*
Mr. PANG Yiu Kai (appointed on 4 February 2021)
Mr. Nicholas Robert SALLNOW-SMITH*
Mr. SHEN Jian Guang
Ms. SHIU Barbara*
Mr. WANG Lan (resigned on 8 February 2020)
Mr. YAO Cheng Chang (resigned on 16 June 2020)

*Independent Non-Executive Directors

There being no provision in the Bank's Articles of Association in connection with the 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.

REPORT OF THE DIRECTORS (CONTINUED)

Directors' rights to acquire shares or debentures

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

Directors' interests in transactions, arrangements and contracts

Saved 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 that are significant to the business of the Bank during the year under review.

Indemnity of Directors

Pursuant to the Articles of Association, every Director shall be indemnified out of funds of the Bank against all liabilities incurred by him/her to the extent permitted by the Companies Ordinance, Chapter 622 of the Laws of Hong Kong. The Bank has maintained insurance for the benefit of Directors against liability which may lawfully be insured by the Bank.

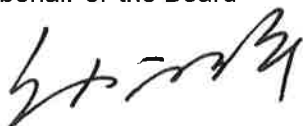
Management Contracts

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.

Auditor

The financial statements for the year ended 31 December 2020 have been audited by Ernst & Young who will retire and, being eligible, offer themselves for reappointment. It is proposed that they be reappointed as auditors, subject to shareholder approval.

On behalf of the Board



Zhong Xiangqun
Chairman
Hong Kong
16 March 2021

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the member of LIVI BANK LIMITED

(Formerly LIVI VB 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 7 to 39, which comprise the statement of financial position as at 31 December 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report. We 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 report of the directors.

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the member of LIVI BANK LIMITED

(Formerly LIVI VB LIMITED)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for 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

(Formerly LIVI VB 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

16 March 2021

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

| | Notes | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|---|-------|---------------------------------------|--|
| Operating income | | | |
| Interest income | | 16,620 | 24,678 |
| Interest expense | | (3,524) | (1,104) |
| Net interest income | 4 | 13,096 | 23,574 |
| Fee and commission income | | 651 | — |
| Fee and commission expense | | (1,195) | — |
| Net fee and commission expense | | (544) | — |
| Net foreign exchanges gains | | 1,069 | 64 |
| TOTAL OPERATING INCOME | | 13,621 | 23,638 |
| Operating expenses | | | |
| Staff costs | 5 | (173,241) | (70,952) |
| Legal and professional fees | | (23,170) | (71,599) |
| Depreciation of equipment, furniture and fixtures | 13 | (22,216) | (4,822) |
| Amortisation of intangible assets | 14 | (43,673) | (6,815) |
| Depreciation of right-of-use assets | 15 | (15,209) | (4,884) |
| Other operating expenses | 7 | (174,285) | (65,381) |
| TOTAL OPERATING EXPENSES | | (451,794) | (224,453) |
| Net operating loss before net releases/(charges) of expected credit losses | | (438,173) | (200,815) |
| Net releases/(charges) of expected credit losses | 8 | 241 | (598) |
| Loss for the year/period | | (437,932) | (201,413) |
| Other comprehensive income | | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | | |
| Financial assets at fair value through other comprehensive income ("FVOCI"): | | | |
| – Fair value changes | | (18) | 7 |
| – Expected credit losses recognised | | 8 | 73 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD | | (10) | 80 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD | | (437,942) | (201,333) |

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

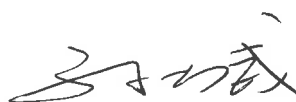
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------|------------------|------------------|
| Assets | | | |
| Cash and balances with banks | 10 | 191,611 | 26,719 |
| Placements with banks | 11 | 556,856 | 867,478 |
| Financial investments | 12 | 1,223,334 | 1,299,886 |
| Equipment, furniture and fixtures | 13 | 67,719 | 76,375 |
| Intangible assets | 14 | 201,946 | 144,047 |
| Right-of-use assets | 15 | 69,788 | 84,997 |
| Prepayments, accrued interest and other assets | | 31,091 | 16,912 |
| TOTAL ASSETS | | 2,342,345 | 2,516,414 |
| Liabilities | | | |
| Customer deposits | 16 | 320,382 | 407 |
| Lease liabilities | | 67,968 | 80,562 |
| Other liabilities and provisions | | 93,270 | 136,778 |
| TOTAL LIABILITIES | | 481,620 | 217,747 |
| NET ASSETS | | 1,860,725 | 2,298,667 |
| Equity | | | |
| Share capital | 19 | 2,500,000 | 2,500,000 |
| Reserves | | (639,275) | (201,333) |
| TOTAL EQUITY | | 1,860,725 | 2,298,667 |



Zhong Xiangqun
Chairman

Sun Dawei
Director



LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

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

| | Share capital HK\$'000 | Accumulated losses HK\$'000 | Financial assets at FVOCI reserve HK\$'000 | Total HK\$'000 |
|--|------------------------------|-----------------------------------|--|-------------------|
| At 18 Mar 2019 (date of incorporation) | – | – | – | – |
| Loss for the period | – | (201,413) | – | (201,413) |
| Change in fair value on financial assets at FVOCI | – | – | 7 | 7 |
| Expected credit losses recognised | – | – | 73 | 73 |
| Total comprehensive income/(loss) for the period | – | (201,413) | 80 | (201,333) |
| Issue of share capital | 2,500,000 | – | – | 2,500,000 |
| At 31 Dec 2019 | 2,500,000 | (201,413) | 80 | 2,298,667 |
| 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) |
| Expected credit 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 |

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|--|---------------------------------------|--|
| Cash flows from operating activities | | |
| Loss for the year/period | (437,932) | (201,413) |
| Adjustments for non-cash items: | | |
| Depreciation of right-of-use assets and equipment, furniture and fixtures | 37,425 | 9,706 |
| Amortisation of intangible assets | 43,673 | 6,815 |
| Net charges/(releases) of expected credit losses | (241) | 598 |
| Interest expenses on lease liabilities | 2,990 | 1,104 |
| | <u>(354,085)</u> | <u>(183,190)</u> |
| Changes in operating assets and liabilities | | |
| Increase in placements with banks with an original maturity beyond three months | (170,000) | – |
| Increase in financial investments with an original maturity beyond three months | (823,487) | – |
| Increase in prepayments, accrued interest and other assets | (14,179) | (16,912) |
| Increase in customer deposits | 319,975 | 407 |
| Increase/(decrease) in other liabilities and provisions | (43,508) | 130,275 |
| | <u>(1,085,284)</u> | <u>(69,420)</u> |
| Net cash flows used in operating activities | (1,085,284) | (69,420) |
| Cash flows from investing activities | | |
| Purchase of equipment, furniture and fixtures | (13,560) | (81,197) |
| Purchase of intangible assets | (101,572) | (150,862) |
| Acquisition costs of right-of-use assets | – | (767) |
| | <u>(115,132)</u> | <u>(232,826)</u> |
| Net cash flows used in investing activities | (115,132) | (232,826) |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | – | 2,500,000 |
| Payment of lease liabilities | (15,584) | (3,153) |
| | <u>(15,584)</u> | <u>(3,153)</u> |
| Net cash flows generated from/(used in) financing activities | (15,584) | 2,496,847 |

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

| | Notes | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|---|-------|---------------------------------------|--|
| Net increase/(decrease) in cash and cash equivalents | | (1,216,000) | 2,194,601 |
| Cash and cash equivalents at beginning of year/period | | <u>2,194,601</u> | <u>–</u> |
| Cash and cash equivalents at end of year/period | 21 | <u>978,601</u> | <u>2,194,601</u> |
| Cash flows from operating activities included | | | |
| – Interest received | | 11,777 | 22,143 |
| – Interest paid | | <u>76</u> | <u>–</u> |

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

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2020

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 20. 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. They 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.

The following revised accounting standards became effective from 1 January 2020. None of the revised accounting standards have a material impact on the financial statements.

Amendments to HKFRS 3

Amendments to HKFRS 9, HKAS 39 and HKFRS 7

Amendments to HKAS 1 and HKAS 8

Amendments to HKAS 16

Definition of a Business

Interest Rate Benchmark Reform

Definition of of Material

COVID-19 Related Rent Concessions

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|--|--|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework²</i> |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | <i>Interest Rate Benchmark Reform – Phase 2¹</i> |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current ^{3, 4} |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use²</i> |
| Annual Improvements to HKFRSs accompanying 2018-2020 | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples HKFRS 16, and HKAS 41 ² |

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ 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.

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Equipment, furniture and fixtures and depreciation

Equipment, furniture and fixtures 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 equipment, furniture and fixtures 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 equipment, furniture and fixtures 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 equipment, furniture and fixtures 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.

(b) 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).

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) 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.

(d) 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.

(e) 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.

LIVI BANK LIMITED
(Formerly LIVI VB LIMITED)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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 comprises 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.

(g) Impairment of financial assets

The Bank recognises an allowance for Expected Credit Losses ("ECLs") for all financial assets including balances and placements with banks 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

(h) 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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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 at the balance sheet date. Deferred tax assets and liabilities are not discounted.

(k) 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 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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leases (continued)

The Bank as a lessee (continued)

Right-of-use assets (continued)

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.

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.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Bank and the revenue and costs, if applicable, can be measured reliably.

(m) Interest income and expense and fee and commission income and expense

Interest income and expense for all financial instruments are recognised in "Interest income" and "interest expense" in profit or loss using the effective interest method.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Interest income and expense and fee and commission income and expense (continued)

Fee and commission income and expenses that are not an integral part of the effective yield are recognised on an accrual basis when the related service is provided. Fee and commission income related to transaction based arrangements such as interchange is recognised at the point in time when the transaction takes place.

(n) Foreign currencies

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

(o) Provisions

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

(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.

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2.3 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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.

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.

4. NET INTEREST INCOME

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|--|---------------------------------------|--|
| Interest income from placements with banks | 10,768 | 23,297 |
| Interest income from financial investments | 5,852 | 1,381 |
| Interest expense on customer deposits | (534) | – |
| Interest expense on lease liabilities | (2,990) | (1,104) |
| Net interest income | <u>13,096</u> | <u>23,574</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

5. STAFF COSTS

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|--|---------------------------------------|--|
| Salaries and bonuses | 159,009 | 61,719 |
| Pension costs – defined contribution plans | 4,561 | 2,112 |
| Others* | 9,671 | 7,121 |
| Total staff costs | <u>173,241</u> | <u>70,952</u> |

* 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:

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 March 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|---|---------------------------------------|--|
| Directors' fees | 1,800 | 601 |
| Other emoluments | | |
| – Salaries and short-term employee benefits | 3,184 | 490 |
| – Pension scheme contributions | 5 | 24 |
| | <u>4,989</u> | <u>1,115</u> |

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31 DECEMBER 2020

7. OTHER OPERATING EXPENSES

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|----------------------------------|---------------------------------------|--|
| Information technology expenses* | 106,287 | 45,146 |
| Marketing expenses | 46,787 | 10,404 |
| Auditor's remuneration | 835 | 470 |
| Others | 20,376 | 9,361 |
| | <u>174,285</u> | <u>65,381</u> |
| Other operating expenses | <u>174,285</u> | <u>65,381</u> |

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

8. NET CHARGES/(RELEASES) OF EXPECTED CREDIT LOSSES

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|---|---------------------------------------|--|
| Cash and balances with banks and placements with banks – Stage 1 | (391) | 525 |
| Financial investments at FVOCI – Stage 1 | 8 | 73 |
| at amortised cost – Stage 1 | 142 | – |
| | <u>(241)</u> | <u>598</u> |
| Net charges/(releases) of expected credit losses | <u>(241)</u> | <u>598</u> |

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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:

| | Year ended 31 Dec 2020 | | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 | |
|--|---------------------------|-------------|---|-------------|
| | HK\$'000 | % | HK\$'000 | % |
| Loss before tax | <u>(437,932)</u> | | <u>(201,413)</u> | |
| Tax loss at the statutory tax rate | (72,259) | (16.5) | (33,233) | (16.5) |
| Estimated tax effect of non-deductible expenses | 14,841 | 3.4 | 374 | 0.2 |
| Estimated tax effect of unrecognised temporary differences | (19,537) | (4.5) | (35,530) | (17.6) |
| Estimated tax effect of tax losses not recognised | <u>76,955</u> | <u>17.6</u> | <u>68,389</u> | <u>34.0</u> |
| Tax charge at the effective rate | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

The Bank had tax losses arising in Hong Kong of approximately HK\$873,854,000 (2019: HK\$407,460,000), 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 no sufficient evidence that taxable profits will be available against which the tax losses can be utilised.

10. CASH AND BALANCES WITH BANKS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Cash and balances with banks – Stage 1 | 191,642 | 26,722 |
| Less: Allowances for expected credit losses – Stage 1 | <u>(31)</u> | <u>(3)</u> |
| | <u>191,611</u> | <u>26,719</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

11. PLACEMENTS WITH BANKS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Placements with banks – Stage 1 | 556,959 | 868,000 |
| Less: Allowances for expected credit losses – Stage 1 | (103) | (522) |
| | <u>556,856</u> | <u>867,478</u> |

12. FINANCIAL INVESTMENTS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| At FVOCI: | | |
| Exchange Fund Bills – Stage 1 | 499,999 | 1,299,879 |
| Add: Revaluation gains / (losses) | (11) | 7 |
| | <u>499,988</u> | <u>1,299,886</u> |
| At amortised cost: | | |
| Certificate of deposits – Stage 1 | 723,488 | – |
| Less: Allowances for expected credit losses – Stage 1 | (142) | – |
| | <u>723,346</u> | <u>–</u> |
| | <u>1,223,334</u> | <u>1,299,886</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

13. EQUIPMENT, FURNITURE AND FIXTURES

| | Leasehold improvements HK\$'000 | Computer equipment HK\$'000 | Office equipment and furniture and fixtures HK\$'000 | Total HK\$'000 |
|--|---------------------------------------|-----------------------------------|--|----------------------|
| Cost | | | | |
| At 1 Jan 2020 | 12,907 | 67,970 | 320 | 81,197 |
| Additions | 8,596 | 4,348 | 616 | 13,560 |
| At 31 Dec 2020 | <u>21,503</u> | <u>72,318</u> | <u>936</u> | <u>94,757</u> |
| Accumulated depreciation | | | | |
| At 1 Jan 2020 | 820 | 3,943 | 59 | 4,822 |
| Charge for the year | 3,956 | 17,955 | 305 | 22,216 |
| At 31 Dec 2020 | <u>4,776</u> | <u>21,898</u> | <u>364</u> | <u>27,038</u> |
| Net book value | | | | |
| At 31 Dec 2020 | <u><u>16,727</u></u> | <u><u>50,420</u></u> | <u><u>572</u></u> | <u><u>67,719</u></u> |
| Cost | | | | |
| At 18 Mar 2019 (date of incorporation) | — | — | — | — |
| Additions | 12,907 | 67,970 | 320 | 81,197 |
| At 31 Dec 2019 | <u>12,907</u> | <u>67,970</u> | <u>320</u> | <u>81,197</u> |
| Accumulated depreciation | | | | |
| At 18 Mar 2019 (date of incorporation) | — | — | — | — |
| Charge for the period | 820 | 3,943 | 59 | 4,822 |
| At 31 Dec 2019 | <u>820</u> | <u>3,943</u> | <u>59</u> | <u>4,822</u> |
| Net book value | | | | |
| At 31 Dec 2019 | <u><u>12,087</u></u> | <u><u>64,027</u></u> | <u><u>261</u></u> | <u><u>76,375</u></u> |

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14. 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 2020 | 150,862 |
| Additions | 101,572 |
| At 31 Dec 2020 | <u>252,434</u> |
| Accumulated amortisation | |
| At 1 Jan 2020 | 6,815 |
| Amortisation for the year | 43,673 |
| At 31 Dec 2020 | <u>50,488</u> |
| Net book value | |
| At 31 Dec 2020 | <u><u>201,946</u></u> |
| Cost | |
| At 18 Mar 2019 (date of incorporation) | – |
| Additions | 150,862 |
| At 31 Dec 2019 | <u>150,862</u> |
| Accumulated amortisation | |
| At 18 Mar 2019 (date of incorporation) | – |
| Amortisation for the period | 6,815 |
| At 31 Dec 2019 | <u>6,815</u> |
| Net book value | |
| At 31 Dec 2019 | <u><u>144,047</u></u> |

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15. RIGHT-OF-USE ASSETS

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.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year/period:

| | Properties HK\$'000 |
|---|------------------------|
| At 18 Mar 2019 (date of incorporation) | – |
| Additions | 89,881 |
| Depreciation provided during the period | (4,884) |
| At 31 Dec 2019, net of accumulated depreciation | <u>84,997</u> |
| Depreciation provided during the year | (15,209) |
| At 31 Dec 2020, net of accumulated depreciation | <u><u>69,788</u></u> |

16. CUSTOMER DEPOSITS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|------------------|------------------|------------------|
| Savings accounts | <u>320,382</u> | <u>407</u> |

17. CURRENT ASSETS

Included within total assets, the following carrying amounts are considered as current assets:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------------------------|-------------------------|
| Cash and balances with banks | 191,611 | 26,719 |
| Placements with banks | 556,856 | 867,478 |
| Financial investments | 1,223,334 | 1,299,886 |
| Prepayments, accrued interest and other assets | 25,401 | 12,221 |
| Current assets | <u><u>1,997,202</u></u> | <u><u>2,206,304</u></u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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18. CURRENT LIABILITIES

Included within total liabilities, the following carrying amounts are considered as current liabilities:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|----------------------------------|------------------|------------------|
| Customer deposits | 320,382 | 407 |
| Lease liabilities | 13,734 | 12,593 |
| Other liabilities and provisions | 86,125 | 130,275 |
| Current liabilities | <u>420,241</u> | <u>143,275</u> |

19. SHARE CAPITAL

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Issued and fully paid: 2,500,000,000 ordinary shares | <u>2,500,000</u> | <u>2,500,000</u> |

20. 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2020

21. CASH AND CASH EQUIVALENTS

(a) Analysis of balances of cash and cash equivalents

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Cash and balances with banks | 191,642 | 26,722 |
| Placements with banks with an original maturity within three months | 386,959 | 868,000 |
| Exchange Fund Bills with an original maturity within three months | 400,000 | 1,299,879 |
| | <u>978,601</u> | <u>2,194,601</u> |

(b) Reconciliation with the statement of financial position

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Cash and balances with banks | 191,611 | 26,719 |
| Placements with banks | 556,856 | 867,478 |
| Financial investments | 1,223,334 | 1,299,886 |
| | <u>1,971,801</u> | <u>2,194,083</u> |
| Amounts shown in the statement of financial position | 1,971,801 | 2,194,083 |
| Less: Amounts with an original maturity of beyond three months | (993,303) | — |
| Add: Allowance for expected credit losses | 103 | 518 |
| | <u>978,601</u> | <u>2,194,601</u> |
| Cash and Cash equivalents in the statement of cash flows | <u>978,601</u> | <u>2,194,601</u> |

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31 DECEMBER 2020

22. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

| | 2020 | | |
|-----------------------------------|---|---|-------------------|
| | Financial assets at FVOCI HK\$'000 | Financial assets at amortised cost HK\$'000 | Total HK\$'000 |
| Cash and bank balances | – | 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 |
| | <u>499,988</u> | <u>1,482,330</u> | <u>1,982,318</u> |

| | 2019 | | |
|-----------------------------------|---|---|-------------------|
| | Financial assets at FVOCI HK\$'000 | Financial assets at amortised cost HK\$'000 | Total HK\$'000 |
| Cash and bank balances | – | 26,719 | 26,719 |
| Placements with banks | – | 867,478 | 867,478 |
| Financial investments | 1,299,886 | – | 1,299,886 |
| Accrued interest and other assets | – | 6,241 | 6,241 |
| | <u>1,299,886</u> | <u>900,438</u> | <u>2,200,324</u> |

Financial liabilities

| | Financial liabilities at amortised cost | |
|-------------------|--|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Customer deposits | 320,382 | 407 |
| Lease liabilities | 67,968 | 80,562 |
| Other liabilities | 85,935 | 110,775 |
| | <u>474,285</u> | <u>191,744</u> |

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23. FAIR VALUE OF ASSETS AND LIABILITIES

Financial instruments measured at fair value – fair value hierarchy

Financial assets

| | 2020 | | | |
|------------------------------|---------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
| Exchange Fund Bills at FVOCI | 499,988 | – | – | 499,988 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | 2019 | | | |
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
| Exchange Fund Bills at FVOCI | 1,299,886 | – | – | 1,299,886 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

At 31 December 2020 and 2019, 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.

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24. RELATED PARTY TRANSACTIONS

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

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|-------------------------------|---------------------------------------|--|
| Interest income | 1,366 | 17,729 |
| Operating expenses | 65,976 | 20,084 |
| Purchase of intangible assets | 18,103 | 100,266 |
| | <u> </u> | <u> </u> |

Outstanding balances with entities of significant influence over the Bank:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-----------------------|-----------------------------|-----------------------------|
| Balances with banks | 36,699 | 22,842 |
| Placements with banks | — | 68,000 |
| Other assets | 5,642 | — |
| Other liabilities | 12,366 | 23,035 |
| | <u> </u> | <u> </u> |

- (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:

| | Year ended 31 Dec 2020 HK\$'000 | Period from 18 Mar 2019 (date of incorporation) to 31 Dec 2019 HK\$'000 |
|--|---------------------------------------|--|
| Salaries and short-term employee benefits* | 13,082 | 3,167 |
| Pension scheme contributions | 269 | 46 |
| | <u> </u> | <u> </u> |
| | <u>13,351</u> | <u>3,213</u> |

* Includes shareholders recharges for secondment staff

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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's principal financial instruments comprise cash and balances with banks, placements with banks and debt instruments. 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 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":

| | 2020 | | 2019 | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | USD HK\$ Million | RMB HK\$ Million | USD HK\$ Million | RMB HK\$ Million |
| Net long / (short) position | 8 | 27 | - | - |

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; and
- Basis risk: imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics.

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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk management (continued)

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 and Economic Value of Equity assess the impact of interest rate movement on the Bank's net interest income and capital base respectively.

As at 31 December 2020, the Bank did not have significant positions in foreign currencies from an interest rate risk perspective. If there was a 200-basis-point parallel rate shock up / down of the HKD yield curve as at 31 December 2020, with other variables held constant, the impact on the Bank's earnings over the next 12 months would be HK\$25 million / (HK\$25 million) respectively (2019: HK\$42 million / (HK\$42 million)); while the impact on the economic value would be (HK\$7 million) / HK\$7 million respectively (2019: (HK\$1 million) / HK\$1 million).

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 had 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.

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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk management (continued)

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

| | 2020 | | | | Total HK\$'000 |
|-------------------|------------------------------------|------------------------|-------------------------|-------------------------------|-------------------|
| | Repayable on demand HK\$'000 | 1-3 months HK\$'000 | 3-12 months HK\$'000 | Over 12 months 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 |
| | <u>373,862</u> | <u>35,861</u> | <u>12,146</u> | <u>59,249</u> | <u>481,118</u> |

| | 2019 | | | | Total HK\$'000 |
|-------------------|------------------------------------|------------------------|-------------------------|-------------------------------|-------------------|
| | Repayable on demand HK\$'000 | 1-3 months HK\$'000 | 3-12 months HK\$'000 | Over 12 months HK\$'000 | |
| Customer deposits | 407 | – | – | – | 407 |
| Lease liabilities | – | 3,438 | 12,145 | 74,801 | 90,384 |
| Other liabilities | 110,775 | – | – | – | 110,775 |
| | <u>111,182</u> | <u>3,438</u> | <u>12,145</u> | <u>74,801</u> | <u>201,566</u> |

Credit Risk Management

Credit risk management is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure. Credit risk is the potential that a borrower or counterparty will fail to meet its obligations with agreed terms. Credit risk exists throughout the activities of the Bank, including both on- and off-balance sheet transactions. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and Board Risk Committee.

The Bank has formulated policies, procedures to identify, measure, assess, monitor, control, and report on credit risk. The development of above is based on significant level of review of business activities and strategies of the Bank and covers identified material risks, both financial and non-financial and in line with the requirement from 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.

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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk Management (continued)

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.

For cash and balances with banks, placements with banks and investments in debt instruments, credit risk arises from potential default of the counterparties. The Bank's policy is to place such funds with financial institutions assigned with strong ratings by international credit-ratings agencies.

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

26. 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.

27. CAPITAL COMMITMENTS

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Authorised and contracted for but not provided for | <u>7,344</u> | <u>20,725</u> |

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

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28. EVENTS AFTER THE REPORTING YEAR

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

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 16 March 2021.



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