



ANNUAL REPORT 2022

WELAB BANK 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.welab.bank.

WELAB BANK LIMITED

DIRECTORS' REPORT

The directors are pleased to submit their annual report together with the audited financial statements of Welab Bank Limited (the "Bank") for the year ended 31 December 2022.

Principal activities

The principal activities of the Bank are to provide banking and related financial services. It offers products and services including savings and time deposits, debit card payments, loans and advances, wealth management and other banking services to customers.

Results and appropriations

The results of the Bank for the year are set out in the statement of profit or loss and other comprehensive income on page 7.

The directors do not recommend any payment of dividend for the year (2021: Nil).

Share capital

Details of shares issued and the related post balance sheet date transactions are set out in Notes 24 and 30 to the financial statements, respectively.

Directors

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

Non-executive directors:

Chan, Ka Keung Ceajer (*Chairman*)

Loong, Pui Chi Simon

Leung, Chun Man Ernest

Executive director:

Lee, Ka Tat

Independent non-executive directors:

Roberts, Donald Jeffrey

Chang, Suk Ling Irene

Lam, Lee G

There being no provision in the Bank's Articles of Association for retirement by rotation, all directors continue in office.

WELAB BANK LIMITED

DIRECTORS' REPORT (Continued)

Directors' material interests

Save for the related party transactions as disclosed in Note 29 to the financial statements, no other transactions, arrangements and contracts of significance in relation to the Bank's business to which the Bank, its holding companies or its fellow subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Under the equity incentive plan arranged by the ultimate holding company, Welab Holdings Limited, certain directors above have been granted share based awards ("Awards") by Welab Holdings Limited for their services to the whole group of Welab Holdings Limited as follows:

Number of Awards				
Outstanding balance at 1 January 2022	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding balance at 31 December 2022
1,382,957	25,000	–	–	1,407,957

The Awards outstanding as at 31 December 2022 had a weighted average exercise price of US\$8.3 per share (2021: US\$8.3 per share).

Certain Awards included above were granted to the relevant directors in their capacity of providing services to the Bank with details as disclosed in Notes 10, 25 and 29 to the financial statements.

Equity-linked agreements

Save for the share option scheme of the ultimate holding company as disclosed above with details set out in Note 25 to the financial statements, no equity-linked agreements were entered into by the Bank or its holding companies during the year or subsisted at the end of the year.

Permitted indemnity provisions

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Bank is currently in force and was in force throughout the year.

WELAB BANK LIMITED

DIRECTORS' REPORT (Continued)

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 year.

Business review

No business review is presented for the year as the Bank has been able to claim an exemption under section 388(3) of the Companies Ordinance Cap. 622 since it is a wholly owned subsidiary of Welab Holdings Limited.

Auditor

KPMG were first appointed as auditors of the Bank in 2022 upon the retirement of PricewaterhouseCoopers.

KPMG retire and, being eligible, offer themselves for re-appointment.



On behalf of the Board
CHAN Ka Keung Ceajer
Chairman

Hong Kong, 27 April 2023



Independent auditor's report to the member of Welab Bank Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Welab Bank Limited ("the Bank") set out on pages 7 to 53, which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("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 are responsible for the other information. The other information comprises all 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.



Independent auditor's report to the member of Welab Bank Limited (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

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

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

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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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



Independent auditor's report to the member of Welab Bank Limited (continued)

(Incorporated in Hong Kong with limited liability)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong

27 APR 2023

WELAB BANK LIMITED

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 HK\$'000	2021 HK\$'000
Interest income	5	57,762	6,413
Interest expense	5	(23,907)	(12,636)
Net interest income/(expense)		33,855	(6,223)
Net fee and commission income	6	1,962	2,630
Other income	7	7,928	1,102
Other operating income		9,890	3,732
		43,745	(2,491)
Operating expenses	8	(464,673)	(480,458)
Finance cost on lease liabilities		(3,317)	(3,892)
Loss before allowances for expected credit losses		(424,245)	(486,841)
Change in allowances for expected credit losses	9	(34,064)	(7,723)
Loss for the year		(458,309)	(494,564)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of financial investments at fair value through other comprehensive income ("FVOCI")		–	(16)
Total comprehensive loss for the year		(458,309)	(494,580)

The notes on pages 12 to 53 form part of these financial statements.

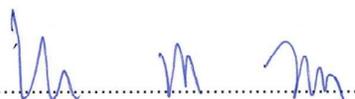
WELAB BANK LIMITED

**STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022**

	Note	2022 HK\$'000	2021 HK\$'000
Assets			
Balances with banks	12	543,171	1,752,038
Placements with banks	13	182,998	209,998
Financial investments	14	328,765	235,311
Loans and advances to customers	15	1,410,273	497,045
Due from a group company	16, 29	18,000	18,000
Property and equipment	17	10,563	17,950
Right-of-use assets	18	21,737	44,660
Intangible assets	19	80,760	63,086
Other assets	20	92,661	79,894
Total assets		2,688,928	2,917,982
Liabilities			
Deposits from customers	21	1,977,534	2,259,060
Repurchase agreement at amortized cost	22	65,000	–
Lease liabilities		29,668	51,793
Other liabilities	23	96,009	77,571
Due to group companies	16, 29	18,584	18,166
Total liabilities		2,186,795	2,406,590
Equity			
Share capital	24	1,804,000	1,371,000
Reserves		(1,301,867)	(859,608)
Total equity		502,133	511,392
Total equity and liabilities		2,688,928	2,917,982



Chan, Ka Keung Ceajer
Chairman



Lee Ka Tat
Director

The notes on pages 12 to 53 form part of these financial statements.

WELAB BANK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share Capital HK\$'000	Employee share-based payment reserve HK\$'000	Financial assets at FVOCI reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2021	870,000	7,763	16	(382,962)	494,817
Issuance of shares (Note 24)	501,000	–	–	–	501,000
Loss for the year	–	–	–	(494,564)	(494,564)
Recognition of equity-settled share-based payments (Note 25)	–	10,155	–	–	10,155
Forfeiture/lapse of share options	–	(7,899)	–	7,899	–
Other comprehensive loss for the year	–	–	(16)	–	(16)
At 31 December 2021	<u>1,371,000</u>	<u>10,019</u>	<u>–</u>	<u>(869,627)</u>	<u>511,392</u>
At 1 January 2022	1,371,000	10,019	–	(869,627)	511,392
Issuance of shares (Note 24)	433,000	–	–	–	433,000
Loss for the year	–	–	–	(458,309)	(458,309)
Recognition of equity-settled share-based payments (Note 25)	–	16,050	–	–	16,050
Forfeiture/lapse of share options	–	(12,280)	–	12,280	–
At 31 December 2022	<u>1,804,000</u>	<u>13,789</u>	<u>–</u>	<u>(1,315,656)</u>	<u>502,133</u>

The notes on pages 12 to 53 form part of these financial statements.

WELAB BANK LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 HK\$'000	2021 HK\$'000
Cash flows from operating activities		
Loss for the year	(458,309)	(494,564)
Adjustments:		
Interest income	(57,762)	(6,413)
Interest expense	23,907	12,636
Change in allowances for expected credit losses	34,064	7,723
Depreciation on property and equipment	7,977	7,417
Depreciation on right-of-use assets	16,190	14,573
Reassessment of right-of-use assets	6,733	–
Amortization of intangible assets	20,651	7,265
Write-off of intangible assets	–	1,060
Finance cost on lease liabilities	3,317	3,892
Non-cash share-based expenses	16,050	10,155
Changes in operating assets and liabilities		
Increase in loans and advances to customers	(946,995)	(504,684)
Increase in due from a group company	–	(18,000)
(Increase)/decrease in other assets	(11,836)	372
(Decrease)/increase in deposits from customers	(281,526)	1,153,718
Increase in repurchase agreement at amortized cost	65,000	–
Increase in other liabilities	9,924	18,688
Increase in due to group companies	418	5,966
Interest received	56,546	3,422
Interest paid	(15,567)	(10,857)
Net cash (used in)/generated from operating activities	(1,511,218)	212,369
Cash flows from investing activities		
Purchase of property and equipment	(590)	(4,402)
Purchase of intangible assets	(38,325)	(11,095)
Proceeds from maturity of financial investments at FVOCI	–	70,093
Proceeds from/(purchase of) financial investments at amortized cost	12,537	(235,343)
Proceeds from/(placements with) banks with original maturity beyond three months	60,000	(60,000)
Net cash generated from/(used in) investing activities	33,622	(240,747)
Cash flows from financing activities		
Principal element of lease payment (Note 28)	(22,125)	(8,990)
Interest element of lease payment (Note 28)	(3,317)	(3,892)
Proceeds from issuance of ordinary shares	433,000	501,000
Net cash generated from financing activities	407,558	488,118

WELAB BANK LIMITED

**STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022 HK\$'000	2021 HK\$'000
Net change in cash and cash equivalents	(1,070,038)	459,740
Cash and cash equivalent at the beginning of the year	<u>1,902,293</u>	<u>1,442,553</u>
Cash and cash equivalent at the end of the year	<u>832,255</u>	<u>1,902,293</u>
Analysis of balances of cash and cash equivalents		
Balances with banks	543,255	1,752,293
Placements with banks with original maturity within three months	183,000	150,000
Financial investments with original maturity within three months	<u>106,000</u>	<u>—</u>
	<u>832,255</u>	<u>1,902,293</u>

The notes on pages 12 to 53 form part of these financial statements.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Welab Bank Limited (the “Bank”) is a limited liability company incorporated in Hong Kong. The principal activities of the Bank are to provide banking and related financial services. It offers products and services including savings and time deposits, debit card payments, loans and advances, wealth management and other banking services to customers.

The Bank’s registered office is 23rd floor, K11 Atelier King’s Road, 728 King’s Road, Quarry Bay, Hong Kong.

The immediate holding company of the Bank is Welab Capital Limited, which is incorporated in Hong Kong. The intermediate holding company of the Bank is Welab Venture Business Limited, which is incorporated in Cayman Islands. The ultimate holding company of the Bank is Welab Holdings Limited, which is incorporated in British Virgin Islands.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

- (i) *Compliance with Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Companies Ordinance (“HKCO”)*

The financial statements of the Bank have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants and requirements of the HKCO Cap. 622.

The financial statements are presented in Hong Kong dollars and rounded to nearest thousand, unless otherwise stated.

- (ii) *Historical cost convention*

The financial statements have been prepared on a historical cost convention, except for financial assets at FVOCI which have been measured at fair value.

The preparation of financial statements of the Bank in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements of the Bank are disclosed in Note 4.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iii) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

- Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to HKAS 37, Provision, contingent liabilities and contingent assets: Onerous contracts - cost of fulfilling a contract

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretation not yet adopted

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

(b) Income/expense recognition

(i) Interest income and interest expenses

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

(ii) Fee and commission income

Fee and commission income is recognized when the Bank has satisfied its performance obligation in providing the promised products and services to the customers, and are recognized based on contractual rates agreed with customers net of expenses directly related to it.

(iii) Other income

Other income includes grants from the government which are recognised at their fair value when there is a reasonable assurance that the Bank is entitled to it and could fulfill the conditions.

Grants that compensate the Bank for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(c) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, and the cost of non-monetary benefits are accrued in the year in which the associated service is rendered by employees.

(ii) Pension obligations

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognized as an expense as it is incurred in the profit or loss.

(iii) Annual leave

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

(d) Share-based payments

Share-based compensation benefits are provided to employees via an option plan operated by the Bank's ultimate holding company, Welab Holdings Limited. Information relating to the plan is set out in Note 25. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense with a corresponding increase in equity, over the vesting period of the awards.

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

- including any market performance conditions (for example, the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(d) Share-based payments (Continued)

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

When the options are exercised, Welab Holdings Limited issues new ordinary shares to employees.

(e) Current and deferred tax

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Bank measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax

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.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(f) Financial assets

Classification and measurement

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

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

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

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

Recognition and derecognition

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

Measurement

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

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(f) Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories that the Bank classifies its debt instruments:

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

(g) Financial liabilities

All financial liabilities are initially measured at fair value, net of transaction costs incurred. The subsequent measurement of financial liabilities depends on their classification.

(i) *Financial liabilities*

Financial liabilities are subsequently stated at amortized cost. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss using the effective interest method.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(g) Financial liabilities (Continued)

(ii) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Bank currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(iii) *Derecognition*

A financial liability is derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

(h) Impairment of financial assets

The Bank applied the impairment requirements under HKFRS 9.

All financial assets, except for financial assets classified or designated as FVPL, are subject to impairment and recognition of expected credit losses ("ECL").

Under HKFRS 9, ECL will be assessed using an approach which classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile. A financial asset is classified under:

- **Stage 1**, if it was not credit-impaired upon origination, and there has not been a significant increase in its credit risk. Stage 1 ECLs are measured as the credit loss that is expected to result from a default occurring within the next 12 months;
- **Stage 2**, if it was not credit-impaired upon origination but has since experienced a significant increase in credit risk. Stage 2 ECLs are measured as the lifetime expected credit loss from the expected remaining life of the financial instrument;
- **Stage 3**, if it has been credit-impaired with objective evidence of default. Stage 3 ECLs are measured as the lifetime expected credit loss from the expected remaining life of the financial instrument.

The impairment requirements of HKFRS 9 are subject to management judgements, estimates and assumptions.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(i) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their costs or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvement: the shorter of the lease term of the leased properties or 5 years
- Furniture, fixtures and equipment: 3 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

(j) Leases

The Bank as a lessee

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

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- amounts expected to be payable by the Bank under residual value guarantees
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(j) Leases (Continued)

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

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

If a readily observable amortizing loan rate is available (through recent financing or market data) which has a similar payment profile to the lease, then the Bank uses that rate as a starting point to determine the incremental borrowing rate.

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets (US\$5,000 or less) are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(k) Intangible assets

Intangible assets that have an indefinite estimated useful life or are not yet ready for use are tested for impairment annually. Intangible assets that have a finite estimated useful life, are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is the lower of legal duration and expected economic life. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(i) Software

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. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognized as intangible assets where the following criteria are met:

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

Directly attributable costs that are capitalized as part of the software include employee costs and relevant overheads costs.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

Purchased software products acquired by the Bank are capitalized as intangible assets and are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses.

Costs associated with maintaining software programmes are recognized as an expense as incurred.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(k) Intangible assets (Continued)

(ii) Research and development

Research expenditure and development expenditure that do not meet the criteria in (i) above are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

(iii) Amortization methods and periods

Intangible assets with finite useful life, are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is measured as the shorter of the period of the contractual or other legal rights and expected economic life. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

(l) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash, balances with banks, placements with banks and investment securities with original maturities of three months or less that are convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(m) Other assets

Other assets represent rental and other deposits, prepayments and other receivables.

Other assets are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Bank holds the other assets with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. The loss arising from impairment is recognized in the profit or loss.

(n) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(n) Provisions (Continued)

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the discount is recognized as interest expenses.

(o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Functional currency and foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements are measured using the primary economic environment in which the entity operates (the "functional currency"). The Bank's financial statements are presented in thousands of units of Hong Kong dollars ("HK\$"), which is the Bank's functional currency and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into Hong Kong dollars using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognized in the profit or loss.

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

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(q) Related parties

For the purpose of these financial statements, related parties of the Bank are defined as below:

- (i) A person, or a close member of that person's family, is related to the Bank if that person:
 - (a) has control or joint control over the Bank;
 - (b) has significant influence over the Bank; or
 - (c) is a member of the key management personnel of the Bank or the Bank's parent entities.
- (ii) An entity is related to the Bank if any of the following conditions applies:
 - (a) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (c) Both entities are joint venture of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
 - (f) The entity is controlled or jointly controlled by a person identified in (i).
 - (g) A person identified in (i)(a) 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).
 - (h) 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 Bank's parent.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management

The Board has the ultimate responsibility for the effective management of risk and approves and oversees the Bank's overall risk management framework. The Board delegates its power to supervise the Bank's major functional areas, including product risk management, compliance, treasury and financial control, and the risks associated with them to the Risk Committee, the Audit Committee, and the Executive Committee based on the respective terms of reference. The Risk Committee in particular has the authority and responsibility to oversee and guide the overall management of the collective set of different risks undertaken by the Bank. The Chief Executive, Chief Risk Officer and the senior management have the responsibility to ensure various risk limits are appropriately established according to the risk management strategies set by the Board, and to oversee the effectiveness of managing and controlling risk in the day-to-day management of the Bank. At management level, Risk Management Committee ("RMC"), Asset and Liability Committee ("ALCO"), Credit Risk Management Committee ("CRMC") and Information Security Committee ("ISC") oversee the risk management of the various risk types.

Business units act as the first line of defence in risk management while other functional units, in particular, Risk, Compliance & Finance departments, which are independent from the business units, and act as the second line of defence, assist in managing different kinds of risks. Internal Audit Department acts as the third line of defence is responsible for providing independent assurance through conducting internal audits, and reporting to the Audit Committee on the quality of risk controls and management, the adequacy and the compliance of internal policies and procedures.

(a) Financial risk factors

The Bank is exposed to various kinds of financial risks including market risk, credit risk and liquidity risk. The Bank's risk management objectives and policies seek to minimize the potential adverse effects on its financial performance.

Market risk

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Bank enters into various types of financial instruments, mainly foreign exchange and debt securities, that comprise transactions initiated for the Bank's own account and customer needs. The Bank's positions are managed under the limits and guidelines laid down in the market risk management policy and the policy on allocating transaction of financial instruments to the trading or non-trading portfolios as applicable. The Market Risk Team is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

For market risk measurement techniques, the measuring procedures and limit system used for market risk management have been approved by the Risk Committee. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are subject to the review by management, ALCO, the Risk Committee and the Board of Directors.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Market risk (Continued)

Foreign exchange risk

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Bank's position as a result of a change in foreign currency exchange rates. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's foreign exchange risk arises primarily from currency exposures originated by the pledged deposit held by the Bank. The foreign exchange risk is monitored by the Market Risk Team, management and ALCO within position limits set in the foreign exchange risk management policy approved by the Risk Committee. The Board sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored on a daily basis.

The Bank mainly has most of its transactions settled in HK\$ and United States dollars ("US\$"). In respect of transactions settled in US\$, the Bank did not have significant exposure to foreign exchange risk during the year as HK\$ is pegged against US\$.

Details of the Bank's cash and cash equivalents is disclosed in the statement of cash flows.

Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movement arises. The Bank's interest rate risk exposure is mainly contributed by non-trading portfolio.

The Bank manages interest rate risks within the limits approved by the Board and Risk Committee and under the monitoring of ALCO. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. For a prudent practice, additional limits on interest rate sensitivities (also known as PV01) are enforced on a daily basis.

The Bank maintains structural interest rate positions on its non-trading portfolio. Interest rate risk arises primarily from the timing differences in the repricing of and the different bases of pricing interest-bearing assets, liabilities and off-balance-sheet positions. Interest rate risk is regularly monitored by regular sensitivity analysis of the net repricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Market risk (Continued)

Interest rate risk (Continued)

The Bank measures interest rate risks on a regular basis according to corresponding policies. The key assumptions the Bank uses in the measurements of the risk include:

- (i) for fixed rate items, the earliest interest repricing date is the maturity dates of the assets or liabilities concerned;
- (ii) for variable rate items, the earliest interest repricing date is the next repricing date of the assets or liabilities concerned;
- (iii) for managed rate items, the earliest interest repricing date is the next business day;
- (iv) a parallel shift in interest rate throughout the time spectrum; and
- (v) for deposits without a fixed maturity, the earliest interest repricing date is the next business day.

Sensitivity analysis

It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Bank's loss and total comprehensive loss for the year ended 31 December 2022 by HK\$1,000,000 (2021: less than HK\$1,000,000).

The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until next annual balance sheet date.

Credit risk

(i) *Credit risk management*

The Bank takes on exposure to credit risk, principally retail credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation, such as failing to repay a loan obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to each counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Credit risk (Continued)

(i) Credit risk management (Continued)

In respect of the loans and advances to customers, the Bank assesses the creditworthiness of its borrowers requesting credit. These assessments focus on the borrower's repayment history and/or their ability to repay based on their individual credit reports obtained from third party. The Bank writes off the relevant outstanding amount of loans when there is objective evidence, such as, prolonged period of delinquency, death or bankruptcy of the borrower, that the loans have become uncollectible.

The exposure to any one counterparty including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits. Actual exposures against limits are monitored regularly.

Exposure to credit risk is managed through regular analysis of the ability of counterparties to meet their obligations. The Bank has in place effective monitoring and control systems to identify, monitor and address problem credits in an accurate and timely manner.

The Bank's credit risk mainly arises from loans and advances to customers, cash and cash equivalents and other receivables.

(ii) Expected credit loss measurement

The Bank adopts a "three-stage" model in accordance with HKFRS 9 for impairment based on changes in credit quality since initial recognition (see Note 2(h)). ECL of financial instruments are measured by taking into consideration forward-looking information. Purchased or originated credit impaired financial assets are those financial assets that are credit-impaired at initial recognition. Their ECL are always measured on a lifetime basis (Stage 3).

The Bank adopts the approach that utilises the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") to estimate ECL of financial instruments. Simplified alternatives are applied to portfolios that have difficulties in adopting this approach. Significant credit deterioration criteria have to be defined for assessing significant increases in credit risk, primarily based on the key requirements summarized below:

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations.
- An actual or expected significant change in the operating results of the corporate obligor.
- Significant increases in credit risk on other financial instruments of the same borrower.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Credit risk (Continued)

(ii) *Expected credit loss measurement (Continued)*

- Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments.
- Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group.
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. A credit exposure is considered as experiencing significant increase in credit risk if there is significant downgrade in external credit rating or overdue of interest/principal payments. ECL is calculated as the discounted product of the PD, EAD and LGD, defined as follows:

- PD represents the likelihood of a counterparty defaulting on its financial obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

There have been no significant changes in estimation technique or significant assumptions made during the reporting period.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Credit risk (Continued)

(ii) *Expected credit loss measurement (Continued)*

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information by considering key economic variables identified by the Bank that have impact on credit risk and ECL for the Bank's portfolios.

These economic variables and their associated impact on the PD, EAD and LGD vary by the type of financial instruments. Expert judgement has also been applied in this process.

In addition to the base economic scenario, the Bank considers two other plausible scenarios along with the assigned weightings as probability of occurrence under the current economic environment. The scenarios and their corresponding weightings are determined by a combination of model-based analysis and expert judgement, taking into account the range of possible outcomes each chosen scenario is representative of. The probability weighted ECL is determined by applying each scenario on the financial instruments through running the relevant ECL models and multiplying the resulted ECLs by the appropriate scenario weighting.

Expected credit loss allowance

The ECL allowance was recognized in the period after considering a variety of factors, as described below:

- Transfers between Stage 1, Stage 2 and Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Credit risk (Continued)

(ii) Expected credit loss measurement (Continued)

Write-offs Policy

(i) Contractual Write-off

Loan outstanding amount must be written off upon 180 days past due. Collection activities would continue to remind customers about their payment obligation and continued to recover the outstanding amount owed to the Bank.

(ii) Early Write-off

Early write-off refers to the write-off of loan outstanding amount which is less than 180 days past due. Reasons include but not limited to bankruptcy, fraud and deceased cases.

Analysis of expected credit loss allowance on financial instruments by stage:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 31 December 2022				
Balances with banks	84	–	–	84
Placements with banks	2	–	–	2
Financial investments at amortized cost	41	–	–	41
Loans and advances to customers	19,617	6,435	6,472	32,524
Other assets	160	125	–	285
Expected credit loss provision on loan commitments	171	3	–	174
	<u>20,075</u>	<u>6,563</u>	<u>6,472</u>	<u>33,110</u>
At 31 December 2021				
Balances with banks	255	–	–	255
Placements with banks	2	–	–	2
Financial investments at amortized cost	32	–	–	32
Loans and advances to customers	7,529	12	–	7,541
Other assets	–	–	–	–
Expected credit loss provision on loan commitments	–	–	–	–
	<u>7,818</u>	<u>12</u>	<u>–</u>	<u>7,830</u>

There were no collaterals and other credit enhancements for the above financial instruments at 31 December 2022 (2021: Nil).

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Bank's liquidity risk is monitored by different risk metrics, including liquidity maintenance ratio ("LMR") and maturity mismatch profile to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is maintained at all times, in order to enable the Bank to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

The Bank's risk appetite is the risk level that the Bank is prepared to accept to achieve its strategic and business objectives. ALCO has been delegated by the Board to manage the Bank's liquidity risk strategy, procedures and practices. ALCO membership consists of the Chief Executive, Alternate Chief Executives, Chief Risk Officer and senior management members. The risk appetite and related limits are reviewed and approved by the Board and Risk Committee at least annually in order to align with industry standards, market developments and business conditions of the Bank.

An acceptable risk appetite is adopted in managing and controlling risks in a prudent manner to balance the risk and return that the Bank is prepared to take. Various ratios and risk limits are set with reference to the legal and regulatory requirements to limit and control the risk exposure under an acceptable risk appetite level and commensurate with prudent liquidity risk management practices.

The Bank's liquidity risk is monitored by the Finance Department, management and ALCO in accordance with the guidelines and procedures laid down in the liquidity risk management policy that has been reviewed and approved by the Board and ALCO periodically.

The following table shows details of the Bank's remaining contractual maturity for its non-derivative financial liabilities. It is based on the contractual maturities of the undiscounted financial liabilities including future interest to be accrued.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Liquidity risk (Continued)

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2022							
Deposits from customers	328,234	207,217	361,000	846,438	234,645	–	1,977,534
Repurchase agreement at amortized cost	–	65,000	–	–	–	–	65,000
Lease liabilities	–	1,553	3,107	13,772	14,903	–	33,335
Other liabilities	9,049	56,679	24,604	5,503	–	174	96,009
Due to group companies	18,584	–	–	–	–	–	18,584
Total financial liabilities	355,867	330,449	388,711	865,713	249,548	174	2,190,462
At 31 December 2021							
Deposits from customers	336,863	1,533,717	378,678	9,802	–	–	2,259,060
Lease liabilities	–	365	3,107	14,277	39,897	–	57,646
Other liabilities	–	59,735	326	17,510	–	–	77,571
Due to group companies	18,166	–	–	–	–	–	18,166
Total financial liabilities	355,029	1,593,817	382,111	41,589	39,897	–	2,412,443

(b) Operational risk

Operational risk is inherent in all business activities, arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. The management oversight of this risk is important to achieve the Bank's objectives. The Bank's operational risk management is embedded in our culture and decision-making processes through a systematic approach, where risk exposures are managed through a standard approach:

- (i) Identification and assessment
- (ii) Root cause analysis, mitigation tracking and on-going monitoring
- (iii) Monitoring against risk limits set in risk appetite
- (iv) Escalation to appropriate governance forums such as management level RMC and board level Risk Committee

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(b) Operational risk (Continued)

Concurrently, operational risk is managed through formal policies and procedures, business practices, and compliance monitoring. An operational risk management function is responsible for maintaining these policies, procedures, practices and monitoring the Bank's compliance with them.

Business continuity and disaster recovery planning is also critical to effective management of operational risks. Each business unit is required to develop, maintain and test these plans at least annually to ensure that recovery activities can support mission critical functions, including technology, networks and datacenters while supporting customer applications and business operations.

(c) Fair value estimation

(i) Valuation process

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices, an assessment is made against external market data. Financial instruments held at fair value in the statement of financial position have been classified into a valuation hierarchy that reflects the significance of the inputs used in the fair value measurements.

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively.

The fair values of other financial assets and liabilities are determined in accordance with generally accepted pricing models such as discounted cash flow analysis using observable and/or unobservable inputs.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models such as discounted cash flow analysis using the observable and/or unobservable inputs.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

(c) Fair value estimation (Continued)

(ii) Valuation of financial instruments carried at fair value

There was no financial instrument held at fair value at 31 December 2022 and 2021.

(d) Capital management

The Bank's capital management policies are to diversify its sources of capital, to allocate capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses and to meet the expectations of key constituencies, including investors and regulators.

The Banking Ordinance and the Banking (Capital) Rules set out the current requirements relating to the minimum capital adequacy ratios and leverage ratio for an authorized institution incorporated in Hong Kong and the methodology for calculating these ratios.

The Bank complied with the capital requirements imposed by the Hong Kong Monetary Authority throughout 2022 and 2021.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

(a) Intangible assets

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

The Bank estimates the useful life of the intangible assets to be two to ten years based on the expected technical obsolescence of such assets. The intangible assets were amortized over the useful life from the date available for use intended by the management.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Critical accounting estimates and judgements (Continued)

(b) Share-based payment

Welab Holdings Limited, the ultimate holding company of the Bank, granted share options to the employees of the Bank as a common feature of employee remuneration. HKFRS 2 requires recognition of an expense for those share options at the fair value on the grant date (equity-settled plans). For share options granted to employees, in many cases market prices are not available because the options granted are subject to terms and conditions that do not apply to traded options. If this is the case, the Bank estimates the fair value of the equity instruments granted using a valuation technique, which is consistent with generally accepted valuation methodologies.

(c) ECL allowances

The ECL allowances for financial instruments 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 condition as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3(a).

(d) Current and deferred income tax

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

As at 31 December 2022, no deferred tax asset has been recognized on the estimated unused tax losses of approximately HK\$1,365,243,000 (2021: HK\$935,343,000) due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, recognition of deferred tax assets may arise.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 Interest income and expense

	2022 HK\$'000	2021 HK\$'000
Interest income from:		
Loans and advances to customers	50,779	4,120
Balances and placements with banks	1,313	340
Financial investments at amortized cost	4,412	666
Financial investments at FVOCI	–	225
Others	1,258	1,062
	<hr/>	<hr/>
Interest income from financial assets not measured at FVPL	57,762	6,413
Interest expense on:		
Deposit from customers	(23,907)	(12,636)
	<hr/>	<hr/>
Net interest income/(expense)	33,855	(6,223)
	<hr/> <hr/>	<hr/> <hr/>

6 Net fee and commission income

	2022 HK\$'000	2021 HK\$'000
Fee and commission income	9,735	8,885
Less: Fee and commission expense	(7,773)	(6,255)
	<hr/>	<hr/>
Net fee and commission income	1,962	2,630
	<hr/> <hr/>	<hr/> <hr/>

7 Other income

	2022 HK\$'000	2021 HK\$'000
Government grant	4,663	807
Others	3,265	295
	<hr/>	<hr/>
	7,928	1,102
	<hr/> <hr/>	<hr/> <hr/>

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 Operating expenses

	2022 HK\$'000	2021 HK\$'000
Employee benefits		
– Salaries and other short-term employee benefits	191,376	171,927
– Pension	4,277	3,875
– Share-based compensation	16,050	10,155
Premises and equipment expenses excluding depreciation		
– Rental of other premises	157	240
– Others	3,588	2,887
Depreciation on property and equipment (Note 17)	7,977	7,417
Depreciation on right-of-use assets (Note 18)	16,190	14,573
Amortization of intangible assets (Note 19)	20,651	7,265
Write-off of intangible assets (Note 19)	–	1,060
Auditor's remuneration		
– Statutory audit	1,685	1,769
– Other services	–	2,983
Software licensing and IT costs	114,928	123,836
Legal and professional fees	4,119	5,963
Other operating expenses	83,675	126,508
	<u>464,673</u>	<u>480,458</u>

9 Change in allowance for expected credit losses

	2022 HK\$'000	2021 HK\$'000
Loans and advances to customers	33,767	7,639
Balances with banks	(171)	97
Placements with banks	–	(14)
Financial investments at FVOCI	–	(22)
Financial investments at amortized cost	9	23
Other assets	285	–
Expected credit loss provision on loan commitments	174	–
	<u>34,064</u>	<u>7,723</u>

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Directors' emoluments

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

	2022	2021
	HK\$'000	HK\$'000
Directors' fees	3,000	3,000
Salaries, bonus, allowances and benefits in kind (Note)	4,105	4,265
Pension	18	20
	<u>7,123</u>	<u>7,285</u>

During the year, no termination benefits were paid by the Bank to any of the Bank's directors. During the year, the Bank did not incur any payment to third parties for making available directors' services.

There are no loans, quasi-loans and other dealing arrangements in favor of directors, controlled bodies corporate by and connected entities with such directors for the year.

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

Note: Certain share options were granted to the relevant directors in their capacity of providing services to the Bank with details disclosed in Note 25 to the financial statements.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Income tax

The applicable Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax has been made in the financial statements for the year ended 31 December 2022 (2021: Nil) as the Bank had no estimated assessable profit for the year.

The taxation on the Bank's loss before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2022 HK\$'000	2021 HK\$'000
Loss before income tax	<u>(458,309)</u>	<u>(494,564)</u>
Tax calculated at tax rate of 16.5%	(75,621)	(81,603)
Tax effect of income not subject to tax	(1,275)	(154)
Tax effect of non-deductible expenses	2,174	1,845
Temporary difference not recognized	2,357	1,480
Tax effect of tax losses not recognized	<u>72,365</u>	<u>78,432</u>
Income tax expense	<u>–</u>	<u>–</u>

At 31 December 2022, the Bank had estimated unused tax losses of approximately HK\$1,365,243,000 (2021: HK\$935,343,000) available for offset against future profits, subject to the approval of tax authority. No deferred tax assets have been recognized in respect of such losses due to unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

12 Balances with banks

	2022 HK\$'000	2021 HK\$'000
Balances with central bank	471,904	1,629,519
Balances with banks	71,351	122,774
Less: ECL allowances	<u>(84)</u>	<u>(255)</u>
	<u>543,171</u>	<u>1,752,038</u>

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Placements with banks

	2022	2021
	HK\$'000	HK\$'000
Placements with banks	183,000	210,000
Less: ECL allowances	(2)	(2)
	182,998	209,998

14 Financial investments

	2022	2021
	HK\$'000	HK\$'000
At amortised cost		
Government bonds	151,893	153,763
Exchange fund bills	69,913	71,472
Bank and corporate debt securities	107,000	10,108
Less: ECL allowances	(41)	(32)
	328,765	235,311

15 Loans and advances to customers

	2022	2021
	HK\$'000	HK\$'000
Gross loans and advances to customers	1,442,797	504,586
Less: ECL allowances	(32,524)	(7,541)
	1,410,273	497,045

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 Loans and advances to customers (Continued)

Reconciliation of ECL allowances and gross loans and advances to customers is as follows:

	2022			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ECL allowances				
At 1 January 2022	7,529	12	–	7,541
Transfer to Stage 2	(1,010)	1,010	–	–
Transfer to Stage 3	(19)	–	19	–
New loans originated or derecognised during the year	13,117	5,413	15,237	33,767
Write-offs	–	–	(8,800)	(8,800)
Recovery	–	–	16	16
At 31 December 2022	<u>19,617</u>	<u>6,435</u>	<u>6,472</u>	<u>32,524</u>

	2022			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances to customers				
At 1 January 2022	504,568	18	–	504,586
Net change in exposures	848,969	82,748	15,278	946,995
Write-offs	–	–	(8,800)	(8,800)
Recovery	–	–	16	16
At 31 December 2022	<u>1,353,537</u>	<u>82,766</u>	<u>6,494</u>	<u>1,442,797</u>

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 Loans and advances to customers (Continued)

	2021			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ECL allowances				
At 1 January 2021	–	–	–	–
New loans originated or derecognised during the year	7,529	12	98	7,639
Write-offs	–	–	(98)	(98)
	<u>7,529</u>	<u>12</u>	<u>–</u>	<u>7,541</u>
At 31 December 2021	<u>7,529</u>	<u>12</u>	<u>–</u>	<u>7,541</u>

	2021			
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances to customers				
At 1 January 2021	–	–	–	–
Net change in exposures	504,568	18	98	504,684
Write-offs	–	–	(98)	(98)
	<u>504,568</u>	<u>18</u>	<u>–</u>	<u>504,586</u>
At 31 December 2021	<u>504,568</u>	<u>18</u>	<u>–</u>	<u>504,586</u>

There were no transfer between stages in 2021.

16 Amounts due from/to group companies

The amount due from a group company is unsecured, interest bearing, repayable within the next 12 months, and denominated or settled in HK\$.

The amounts due to group companies are unsecured, interest free and denominated or settled in HK\$. They have no fixed repayment terms but are expected to be repaid within the next 12 months.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 Property and equipment

	Leasehold improvement HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost			
At 1 January 2022	12,916	18,154	31,070
Additions	–	590	590
	<u>12,916</u>	<u>18,744</u>	<u>31,660</u>
At 31 December 2022	12,916	18,744	31,660
Accumulated depreciation			
At 1 January 2022	4,495	8,625	13,120
Charge for the year	3,003	4,974	7,977
	<u>7,498</u>	<u>13,599</u>	<u>21,097</u>
At 31 December 2022	7,498	13,599	21,097
Net book value			
At 31 December 2022	<u>5,418</u>	<u>5,145</u>	<u>10,563</u>
Cost			
At 1 January 2021	11,153	15,515	26,668
Additions	1,763	2,639	4,402
	<u>12,916</u>	<u>18,154</u>	<u>31,070</u>
At 31 December 2021	12,916	18,154	31,070
Accumulated depreciation			
At 1 January 2021	1,789	3,914	5,703
Charge for the year	2,706	4,711	7,417
	<u>4,495</u>	<u>8,625</u>	<u>13,120</u>
At 31 December 2021	4,495	8,625	13,120
Net book value			
At 31 December 2021	<u>8,421</u>	<u>9,529</u>	<u>17,950</u>

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 Right-of-use assets

The Bank has lease contracts for office premises with lease terms up to 5 years. Lease payments are agreed upfront except for renewal periods whereby the lease payments are subject to prevailing market rates. Extension options are currently not included in the lease term.

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

	2022 HK\$'000	2021 HK\$'000
At 1 January	44,660	49,645
Additions	–	9,588
Depreciation	(16,190)	(14,573)
Reassessment	(6,733)	–
	<u>21,737</u>	<u>44,660</u>
At 31 December	<u>21,737</u>	<u>44,660</u>

19 Intangible assets

The Bank recognizes intangible assets which include separately acquired software developed with external third parties and fellow subsidiaries.

	2022 HK\$'000	2021 HK\$'000
Cost		
At 1 January	81,968	81,259
Additions	38,325	11,095
Write-off	–	(1,200)
Reclassification	–	(9,186)
	<u>120,293</u>	<u>81,968</u>
At 31 December	<u>120,293</u>	<u>81,968</u>
Accumulated amortization		
At 1 January	18,882	11,757
Charge for the year		
– Amortization	20,651	13,836
– Reclassification	–	(6,571)
Write-off	–	(140)
	<u>39,533</u>	<u>18,882</u>
At 31 December	<u>39,533</u>	<u>18,882</u>
Net book value		
At 31 December	<u>80,760</u>	<u>63,086</u>

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 Other assets

	2022 HK\$'000	2021 HK\$'000
Prepayments	56,644	50,055
Rental and other deposits	26,417	26,414
Other receivables	9,600	3,425
	<u>92,661</u>	<u>79,894</u>

21 Deposits from customers

	2022 HK\$'000	2021 HK\$'000
Savings accounts	328,234	336,863
Time deposits	1,649,300	1,922,197
	<u>1,977,534</u>	<u>2,259,060</u>

22 Repurchase agreement at amortized cost

Repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. Since the repurchase prices are fixed, the Bank is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Bank does not have the ability to use during the term of the arrangements, are not derecognized from the financial statements but regarded as "collateral" for the secured lending because the Bank retains substantially all the risks and rewards of these securities. In addition, it recognizes a financial liability for cash received. Collateral under repurchase agreements were principally exchange fund bills of HK\$65,500,000 as of 31 December 2022 (2021: Nil).

23 Other liabilities

	2022 HK\$'000	2021 HK\$'000
Accruals	68,594	63,320
Interest payables	11,357	3,017
Other payables	15,884	11,234
Expected credit loss provision on loan commitments	174	–
	<u>96,009</u>	<u>77,571</u>

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 Share capital

	2022		2021	
	Number of shares	Share capital HK\$'000	Number of shares	Share capital HK\$'000
Ordinary shares, issued and fully paid:				
At 1 January	1,371,000,001	1,371,000	870,000,001	870,000
Issuance of share	433,000,000	433,000	501,000,000	501,000
At 31 December	1,804,000,001	1,804,000	1,371,000,001	1,371,000

Note: During the year, a total of 433,000,000 ordinary shares have been issued for a total consideration of HK\$433,000,000.

25 Share-based payments

Welab Holdings Limited, the ultimate holding company of the Bank, granted its share options to the relevant directors and employees of the Bank. Options generally vest over a four years' service period (the vesting period) upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement. The share options are exercisable starting from 23 April 2014.

For the year ended 31 December 2022, the Bank recorded and recognized share-based compensation expenses of HK\$16,050,000 during the year (2021: HK\$10,155,000).

Movements in the number of share options granted to the directors and employees of the Bank in respect of the services provided to the Bank and their related weighted average exercise prices are as follows:

	2022		2021	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
Outstanding at 1 January	12.7	492,787	12.8	253,900
Granted during the year	12.0	130,639	12.4	394,000
Exercised during the year	12.0	(4,142)	12.0	(5,167)
Forfeited during the year	13.0	(148,111)	12.0	(149,946)
Outstanding at 31 December	12.4	471,173	12.7	492,787
Exercisable at 31 December	13.1	194,083	13.6	73,365

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 Share-based payments (Continued)

During the year ended 31 December 2022, 148,111 share options were forfeited as certain employees and non-employees ceased to render services to the Bank (2021: 149,946).

The above options outstanding at 31 December 2022 had a weighted average exercise price of US\$12.4 (2021: US\$12.7), and a weighted average remaining contractual life of 8.3 years (2021: 9.0 years).

The above share options outstanding at 31 December 2022 and 2021 have the following expiry dates and exercise prices:

<i>Expiry date</i>	2022		2021	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
2nd quarter 2029	15.6	34,500	15.1	47,000
3rd quarter 2029	12.0	15,000	12.0	16,125
1st quarter 2030	12.0	25,875	12.0	33,000
2nd quarter 2030	13.4	25,734	13.7	36,527
3rd quarter 2030	–	–	12.0	3,135
4th quarter 2030	–	–	12.0	2,000
1st quarter 2031	12.0	11,000	12.0	23,500
2nd quarter 2031	12.2	239,625	12.5	303,000
3rd quarter 2031	12.0	15,500	12.0	28,500
1st quarter 2032	12.0	103,939	–	–
		<u>471,173</u>		<u>492,787</u>

The above options and related details do not include those options granted to the directors and employees of the Bank in their capacity of rendering services to the ultimate holding company.

Fair value of options and assumptions

At 31 December 2022, the weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was US\$20.9 per option (2021: US\$17.7).

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 Share-based payments (Continued)

The significant inputs into the model for the year ended 31 December 2022 and 2021 were as follows:

	2022	2021
Weighted average share price at grant dates	US\$29.9	US\$27.2
Expected volatility	50%	50.0%
Expected dividend yield	0%	0%
Risk-free interest rate	2.6%	0.3-0.8%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of monthly share prices of the comparable companies over the expected option life. Expense recognized in the profit or loss is disclosed in Note 8.

26 Capital commitments

Significant capital commitments, except lease liabilities as separately disclosed, contracted for at the end of the reporting period but not yet incurred are as follows:

	2022	2021
	HK\$'000	HK\$'000
Capital commitments contracted for, but not provided in the statement of financial position	2,344	5,670

27 Off-balance sheet exposures

The following is a summary of the contractual amounts of loan commitments:

	2022	2021
	HK\$'000	HK\$'000
Loan commitments which are unconditionally cancellable	93,937	–

The loan commitments are unconditionally cancellable represent the undrawn portion of the revolving credit facilities granted to customers.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 Note to statement of cash flows

Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities arising from financial activities, including both cash and non-cash changes. Liabilities arising from financial activities are liabilities for which cash flows were, or future cash flows will be, classified in the Bank's statements of cash flows as cash flows from financial activities.

	Lease liabilities HK\$'000	Total HK\$'000
At 1 January 2021	52,654	52,654
Changes from financing cash flows:		
Principal portion of lease payment	(8,990)	(8,990)
Interest portion of lease payment	(3,892)	(3,892)
	<hr/>	<hr/>
Total changes from financing cash flows	39,772	39,772
Other changes:		
Net increase in lease liabilities from entering into new lease	8,129	8,129
Interest expense of lease payment	3,892	3,892
	<hr/>	<hr/>
At 31 December 2021	51,793	51,793
Changes from financing cash flows:		
Principal portion of lease payment	(22,125)	(22,125)
Interest portion of lease payment	(3,317)	(3,317)
	<hr/>	<hr/>
Total changes from financing cash flows	26,351	26,351
Other changes:		
Interest expense of lease payment	3,317	3,317
	<hr/>	<hr/>
At 31 December 2022	29,668	29,668

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 Related party transactions

The following material transactions were carried out between the Bank and its related parties during the year. These related party transactions were carried out in the ordinary course of business and on commercial terms.

(a) Group companies

	2022 HK\$'000	2021 HK\$'000
For the year ended 31 December		
Interest income ⁴	994	1,059
Rental Income ¹	609	–
Staff costs recharge ¹	2,386	–
Purchase of intangible assets ²	13,525	7,997
Prepayment of IT expenses ²	3,864	4,348
IT costs ²	10,583	4,113
Other operating expenses ³	519	865
	<u> </u>	<u> </u>
At 31 December		
Assets		
Due from the ultimate holding company ⁴	18,000	18,000
	<u> </u>	<u> </u>
Liabilities		
Due to fellow subsidiaries ⁴	18,584	18,166
	<u> </u>	<u> </u>

Notes:

1. During the year, the Bank received HK\$2,105,000 for staff costs recharge and HK\$609,000 for rental income from a fellow subsidiary (2021:Nil). The Bank received HK\$281,000 for staff costs recharge from the ultimate holding company (2021:Nil).
2. During the year, the Bank's fellow subsidiaries have provided services for the Bank regarding the Bank's system developments. The total amounts incurred were RMB24,121,000 (equivalent to HK\$27,972,000) (2021:RMB13,572,000 (equivalent to HK\$16,458,000)), which have been accounted for by the Bank in its financial statements as described above.
3. During the year, the Bank's fellow subsidiary has provided business consultancy services for the Bank. The amounts incurred for the year amounted to HK\$519,000 (2021:HK\$865,000).
4. The interest income and terms in relation to the amounts due from/to group companies are set out in Note 16.

WELAB BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 Related party transactions (Continued)

(b) Directors and key management personnel emoluments

Emoluments for directors and key management personnel, including amounts paid to the Bank's directors as disclosed in Note 10 as follows:

	2022 HK\$'000	2021 HK\$'000
Salaries, other short-term employee benefits and directors' fee	23,323	24,981
Pension	170	170
Share-based compensation	5,641	5,463
	<u>29,134</u>	<u>30,614</u>

(c) Transactions and balances with directors and key management personnel

For the year ended 31 December 2022 and 2021, the Bank has banking transactions with directors and key management personnel of the Bank and their close family members. These transactions mainly include taking of deposits, which are made in the ordinary course of business and on commercial terms, and are not material.

30 Subsequent events

- (a) The Bank renewed the interest-bearing unsecured facility to Welab Holdings Limited with the principal amount reduced to HK\$15,000,000 for one year upon its maturity in January 2023.
- (b) In January, February and March 2023, the Bank issued 25,000,000 ordinary shares to Welab Capital Limited for a consideration of HK\$25,000,000 each time.

31 Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 27 April 2023.

WELAB BANK LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CORPORATE GOVERNANCE REPORT

The Bank is committed to high standards of corporate governance and complies with the guidelines issued by the HKMA in the SPM Module CG-1 on “Corporate Governance of Locally Incorporated Authorized Institutions”. To accomplish this, the Bank exercises corporate governance through the following Committees.

1. Board of Directors

The Board of Directors of the Bank (the “Board”) is responsible for the overall management and affairs of the Bank and is primarily accountable to the shareholder(s) for the proper conduct of the business of the Bank.

Prof. CHAN Ka Keung Ceajer

Chairman and Non-Executive Director

Prof. Chan was appointed as Secretary for Financial Services and the Treasury of the Government of the Hong Kong Special Administrative Region from July 2007 to June 2017. Prior to that, he was Dean of Business and Management in the Hong Kong University of Science and Technology (HKUST). He is currently Adjunct Professor at HKUST Business School.

Prof. Chan received his bachelor’s degree in economics from Wesleyan University and his M.B.A. and Ph.D. in finance from the University of Chicago. He specialised in assets pricing, evaluation of trading strategies and market efficiency and has published numerous articles on these topics.

Prof. Chan is a director of One Country Two Systems Research Institute and a member of Competition Commission. In the past, he held a number of public service positions including Chairman of the Consumer Council, Director of the Hong Kong Futures Exchange, and Member of the Commission on Strategic Development, Commission on Poverty, the Exchange Fund Advisory Committee, the Hang Seng Index Advisory Committee, and the Hong Kong Council for Academic Accreditation.

Mr. LOONG Pui Chi Simon

Non-Executive Director

Mr. Loong is the Founder and Group CEO of WeLab Group. Mr. Loong has 25 years of fintech and banking experience. Prior to founding WeLab Group, Mr. Loong spent 15 years in the retail banking divisions of Citibank and Standard Chartered Bank. Mr. Loong has a master’s degree from Stanford Graduate School of Business and is a Fellow of Certified Public Accountant (Australia).

Mr. Loong is a pioneer in driving fintech development and financial inclusion in Asia. He is a strong believer and passionate about innovating the financial services industry with technology. He serves on key committees in both public and private sectors to drive the proliferation of the fintech ecosystem in Asia.

Mr. Loong has received multiple awards in recognition of his achievements including “CEO of the Year” by Capital CEO, “Innovation Leadership Achievement in Hong Kong” by The Asian Banker, “Asia’s Most Influential” by Tatler Asia, and “Vice-Chancellor’s Achievement Award” by University of Sydney. Mr. Loong has also been named as “one of the 20 people shaping Hong Kong’s future” in the next 20 years by leading Chinese media outlet, YiCai.

WELAB BANK LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CORPORATE GOVERNANCE REPORT (Continued)

1. Board of Directors (Continued)

Mr. LEUNG Chun Man Ernest

Non-Executive Director

Mr. Leung is the Group Chief Operating Officer of WeLab Group. Mr. Leung has over 25 years of experience in the banking and finance industry. Prior to joining WeLab, Mr. Leung was the Singapore CEO and APAC COO at BNP Paribas Wealth Management. Mr. Leung previously held a number of leadership roles across key Asia markets with extensive experience ranging from corporate strategy, business creation and transformation, to chief executive and board responsibilities across consumer & private banking.

Mr. Leung is a director of Make-A-Wish Foundation of Hong Kong Limited and a member of New Business Committee of Financial Services Development Council. Mr. Leung holds a Bachelor of Commerce from the University of British Columbia, Canada.

Mr. LEE Ka Tat

Executive Director

Mr. Lee is the Chief Executive of the Bank. Guided by his vision of empowering customers to handle their financial needs with fintech, Mr. Lee was engaged in the formation of the Bank in 2018. Ever since, he has led the team to mark several important milestones, such as attaining the virtual bank license, establishing the mission and the positioning of the Bank, leading the overall business development and so forth, making the Bank a well-received virtual bank in Hong Kong.

Mr. Lee has two decades of retail banking and fintech experience. Mr. Lee joined WeLab Group, the parent company of the Bank, back in 2013. He has assumed a number of roles in WeLab Group including General Manager and Head of Product and Risk Management of Welend Limited (“WeLend”), a direct online lending business under WeLab Group. Under his leadership, WeLend grew from a start-up to Hong Kong’s largest technology and AI powered pure online lending platform. Prior to joining WeLab Group, he held senior roles in leading international financial institutions, including HSBC and Standard Chartered Bank’s former consumer finance subsidiary, PrimeCredit.

Mr. Lee holds a Bachelor of Engineering (Computer Science) from Hong Kong University of Science and Technology.

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CORPORATE GOVERNANCE REPORT (Continued)

1. Board of Directors (Continued)

Mr. Donald Jeffrey ROBERTS

Independent Non-Executive Director

Mr. Roberts is a veteran CFO with over 40 years' experience in a leading conglomerate, Hutchison Whampoa Limited, where he was Group Deputy CFO for 11 years. Mr. Roberts is currently an Independent Non-Executive Director of CK Asset Holdings Limited, CK Life Sciences Int'l. (Holdings) Inc., HK Electric Investments Limited, NexGen Energy Ltd. and Queen's Road Capital Investment. He was previously a member of the Executive Committee of The Canadian Chamber of Commerce in Hong Kong and is currently Governor of the Chamber.

Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Alberta and British Columbia, and also a Fellow of the HKICPA.

Ms. CHANG Suk Ling Irene

Independent Non-Executive Director

Ms. Chang (Mrs. Irene Chiu) has over 30 years of experience across different groups at Citibank until her retirement in 2019. Her last role was the Retail Credit Head for Citibank, a role she held from 2005 to 2019, covering Australia, Japan and Asia Pacific, with Europe added in the later years. She is a veteran in retail credit risk management and was responsible for independent risk oversight for Citi's retail credit portfolios across 20 countries. Ms. Chang has extensive "through-the-cycle" experience in managing retail credit portfolios, building de novo businesses and through "boom and bust, and to recovery".

Ms. Chang holds a Bachelor of Social Sciences degree from the University of Hong Kong.

Dr. LAM Lee G

Independent Non-Executive Director

Dr. Lam has over 30 years' international experience in management, strategy and investment banking across telecommunications, media and technology, and financial services sectors. Dr. Lam was previously the Chairman of Hong Kong Cyberport Management Company Limited, Non-Executive Chairman – Greater China and ASEAN Region of Macquarie Infrastructure and Real Assets, and Senior Advisor, Macquarie Group Asia. Dr. Lam has served in leadership roles (including Chairman, Vice Chairman, Managing Director, CEO, COO and General Manager) with several multinational corporations and listed companies.

Dr. Lam is currently an Executive Director of Hong Kong Aerospace Technology Group Limited, and an Independent Non-Executive Director of Haitong Securities Company Limited and Huarong International Financial Holdings Limited. He is also a member of the Governance Committee of the Hong Kong Growth Portfolio and the Development Bureau Common Spatial Data Advisory Committee of the Hong Kong Special Administrative Region Government, Convenor of the Panel of Advisors on Building Management Disputes of the Hong Kong Special Administrative Region Government Home Affairs Department, and a member of the Hong Kong Trade Development Council Belt and Road and Greater Bay Area Committee.

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CORPORATE GOVERNANCE REPORT (Continued)

1. Board of Directors (Continued)

Dr. Lam holds a BSc in Sciences and Mathematics, an MSc in Systems Science and an MBA from the University of Ottawa in Canada; an LLB (Hons) in law from Manchester Metropolitan University in the UK, a LLM in Law from the University of Wolverhampton in the UK; an MPA and a PhD from the University of Hong Kong.

Board Committees

The Board delegates the management and day-to-day running of the Bank to the Chief Executive and the Alternate Chief Executives in accordance to the direction determined by the Board. Other matters which the Board considers suitable for delegation are contained in the terms of reference of its committees as follows:

a. Executive Committee

The Executive Committee provides leadership and ensure strong governance across all matters related to the Bank. The committee is responsible for the day-to-day operations and administration of the Bank within the framework of the Bank's policies and act in accordance to the direction determined by the Board of Directors of the Bank to maximize and protect the value of the Bank. The committee is chaired by the Chief Executive and its members include Chief Compliance Officer, Chief Risk Officer, Chief Technology Officer, Head of Operations, Deputy Chief Financial Officer, Head of Regulatory Compliance, Head of Financial Crime Compliance, and Head of Human Resources, while Head of Internal Audit and Head of Growth are the standing invitees.

b. Remuneration Committee

The Remuneration Committee is responsible to the Board for formulating remuneration policy and remuneration proposals of all staff, in particular, Directors, the Chief Executive, Alternate Chief Executives and senior management of the Bank and overseeing its implementation. The committee in determining the remuneration proposals shall ensure consistency with the Bank's culture, long-term business and risk appetite, performance and control environment and relevant legal requirements and rules and guidance published by regulatory authorities. It consists of:

Dr. LAM Lee G (Chairman)	Independent Non-Executive Director
Mr. Donald Jeffrey ROBERTS	Independent Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

WELAB BANK LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CORPORATE GOVERNANCE REPORT (Continued)

1. Board of Directors (Continued)

Board Committees (Continued)

c. Nomination Committee

The Nomination Committee is responsible to the Board for leading the process for Board appointments and for identifying and nominating for the approval of the Board, candidates for the appointment to the Board. It also has responsibility of identifying individuals suitably qualified to become members of senior management and selecting, or making recommendations to the Board on the selection of, individuals nominated for senior management positions. It consists of:

Dr. LAM Lee G (Chairman)	Independent Non-Executive Director
Mr. Donald Jeffrey ROBERTS	Independent Non-Executive Director
Ms. CHANG Suk Ling Irene	Independent Non-Executive Director
Prof. CHAN Ka Keung Ceajer	Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

d. Risk Committee

The Risk Committee is responsible for ensuring an appropriate risk management framework, overseeing and monitoring the various risks affecting the Bank including technology risk. The committee reviews and supports the implementation of the risk management strategies, risk appetites and key risk management policies based on the guidelines and directives of the HKMA. The committee interacts regularly with and oversees the Chief Risk Officer and also receives regular risk reports from the Chief Risk Officer and the risk management function of the Bank. It consists of:

Ms. CHANG Suk Ling Irene (Chairperson)	Independent Non-Executive Director
Mr. Donald Jeffrey ROBERTS	Independent Non-Executive Director
Dr. LAM Lee G	Independent Non-Executive Director
Prof. CHAN Ka Keung Ceajer	Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

e. Audit Committee

The Audit Committee is established to assist the Board of the Bank in ensuring the adequacy of the internal control systems and reinforcing the work of internal audit function and external auditors and in fulfilling its duties through a review and supervision of the Bank's financial reporting. It oversees the establishment of the Bank's accounting policies and procedures, approves the internal and external audit plans, reviews reports and recommendations provided by the internal and external audit functions, and reports significant findings, if any to the Board in relation to any deficiencies in the Bank's internal control system. It consists of:

Mr. Donald Jeffrey ROBERTS (Chairman)	Independent Non-Executive Director
Ms. CHANG Suk Ling Irene	Independent Non-Executive Director
Mr. LOONG Pui Chi Simon	Non-Executive Director

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CORPORATE GOVERNANCE REPORT (Continued)

1. Board of Directors (Continued)

Sub-committees of Risk Committee

a. Asset and Liability Committee

The Asset and Liability Committee is responsible for the effective management of the assets and liabilities of the Bank, which includes overseeing the Bank's operations relating to interest rate risk, liquidity risk, market risk and capital management. The members are appointed by the Chief Executive who chairs the meetings, and standing members comprise the Chief Executive, Deputy Chief Financial Officer, Chief Risk Officer, Head of Loan, Head of Deposit and Payment, Head of Balance Sheet and Capital Management and Corporate Controller. Meetings are chaired by the Deputy Chief Financial Officer, or in his/her absence, the Chief Executive or his/her delegate.

b. Risk Management Committee

The Risk Management Committee is responsible for overseeing the effective management of operational risk, technology risk, reputational risk, regulatory risk, legal risk and strategic risk arising from the Bank's activities. This committee also covers risks associated with non-compliance with external rules and regulations relating to Financial Crime (i.e. money laundering, terrorist financing, sanctions, fraud and bribery corruption). The members are appointed by the Chief Executive, including the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Chief Compliance Officer, Deputy Chief Financial Officer, Chief Technology Officer, Head of Operations, Head of Card, Head of Product, Head of Operational Risk, Head of Technology Risk, Head of Financial Crime Compliance, Head of Regulatory Compliance, Head of Wealth Management and Corporate Controller. Meetings are chaired by the Chief Risk Officer, or in his/her absence, the Chief Executive or his/her delegate.

c. Credit Risk Management Committee

The Credit Risk Management Committee is responsible for overseeing the effective management of credit risk arising from the Bank's activities. The members are appointed by the Chief Executive, including the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Chief Compliance Officer, Deputy Chief Financial Officer, Head of Operations, Head of Credit, Head of Card, Head of Product, Head of Regulatory Compliance and Corporate Controller. Meetings are chaired by the Chief Risk Officer, or in his/her absence, the Chief Executive or his/her delegate.

d. Information Security Committee

The Information Security Committee is a senior management level committee responsible for ensuring an appropriate information security, cybersecurity risk management framework, overseeing and monitoring the information security risks affecting the Bank. This committee reviews and oversees the implementation of the information security, cybersecurity risk management strategies and program, and key risk policies based on the guidelines and directives of the Hong Kong Monetary Authority and Securities and Futures Commission of Hong Kong. This committee interacts regularly with and also receives regular information security and cybersecurity risk reports from the Cybersecurity team and Technology Risk team of the Bank. The members are appointed by the Risk Committee, including Chief Risk Officer, Chief Technology Officer, Head of Technology Risk and Senior Manager, Cyber Security. Meetings are co-chaired by the Chief Risk Officer and Head of Technology Risk.

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CORPORATE GOVERNANCE REPORT (Continued)

2. Disclosure on Remuneration System

The Remuneration Committee is delegated by the Board of the Bank and is independent of management. The Remuneration Committee is responsible to review remuneration policies and practices on annual basis or when necessary to ensure the remuneration policy is consistent with the principles set out under the HKMA Supervisory Policy Manual CG-1, CG-5 and other legal requirements. Two thirds of the Remuneration Committee are Independent Non-executive Director (“INED”). One Remuneration Committee meeting was held in the year of 2022.

Key Principles of Remuneration Policy

The remuneration policy and its implementation are subject to regular (at least annual) review by the Board of the Bank or the Remuneration Committee to ensure that the policy remains adequate and market competitive and that the operation of the remuneration system is consistent with the prevailing regulatory requirements and long term interests of the Bank. The policy applies to all staff members who are employed by the Bank. The principles of the Policy are as follows:

- a. Reinforce a business culture based on the highest ethical standards;
- b. Manage risks to the Bank by encouraging prudent decision-making and in line with the objectives, business strategies and long-term goals of the Bank;
- c. Reflect regulatory guidance in compensation program;
- d. Attract and retain the best talent to lead the Bank to success;
- e. Remunerate all staff members fairly and reasonably according to the individual level of competence and performance;
- f. Performance evaluation is based on the balance of financial and non-financial factors including effective risk and people management;
- g. Remuneration practices are set against comparable industry norms and to promote a “pay for performance” culture.

Structure of Remuneration

The Bank’s remuneration structure shall promote behaviour amongst staff members that supports the Bank’s risk management framework and long-term financial soundness. The Bank’s remuneration package consists of both fixed and variable (discretionary) compensation. Fixed remuneration refers to base salary (guaranteed) and allowance. Variable remuneration refers to variable bonus and shares or share-linked instruments such as share options or awards. An appropriate balance between fixed and variable remuneration will reflect the seniority, role and responsibilities of each staff member. The proportion of variable remuneration to total remuneration will increase in line with the seniority and job responsibilities of each staff member.

WELAB BANK LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

CORPORATE GOVERNANCE REPORT (Continued)

2. Disclosure on Remuneration System (Continued)

Senior Management & Key Personnel

Senior Management (including Chief Executive and Alternate Chief Executives) are responsible for oversight of the Bank's strategy or activities or material business lines. Key Personnel are those reported under HKMA as "Managers" whose action may have a material impact on the risk exposure of the Bank.

Performance Measurement for Variable Remuneration

The award of variable remuneration shall depend on the fulfilment of budget income, peer group performance comparison and risk control factors. These criteria should include both financial, non-financial and risk factors. In allocating variable remuneration, the following factors should be taken into consideration:

- a. Overall performance of the Bank;
- b. Performance of the relevant business units;
- c. Contribution of individual staff member to such performance; and
- d. Risk control functions' input on the performance of relevant business unit and its staff members

The total amount of variable remuneration may be reduced in the event of an actual or expected deterioration in the financial performance of the Bank or staff misconduct (e.g. internal fraud, data leakage or damage to property etc.). The Chief Executive of the Bank has the authority to exercise discretion and flexibility to withhold all or part of the variable remuneration.

The remuneration of staff members in risk control functions should be determined in accordance with their performance objectives and should be independent of the performance of business units which they oversee.

Deferral Arrangement

A portion of variable remuneration may subject to deferral which will allow staff members' performance, including the associated risks, to be observed and validated over a period of time before payment is actually made and the adjustment of the amount to be paid will enable the remuneration ultimately received by staff members to more accurately reflect risk and risk outcomes.

3. Internal Audit

The Internal Audit function as the third line of defence is to provide independent and objective assurance to the Board and the Audit Committee on the quality and effectiveness of the Bank's risk management, internal controls, governance framework and processes. Internal Audit function adopts a risk-based approach in its auditing activities. The internal auditors are responsible to and report to the Audit Committee.