



REGULATORY DISCLOSURE STATEMENT
For the year ended 31 December 2022

(Unaudited)

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

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1 Introduction

1.1 Purpose

This Unaudited Regulatory Disclosure Statement should be read in conjunction with 2022 Audited Financial Statements (“financial statements”). The financial statements and this Regulatory Disclosure Statement taken together comply with the Banking (Disclosure) Rules (“BDR”) under section 60A of the Banking Ordinance. The disclosure statement is prepared in accordance with the BDR and disclosure templates issued by the Hong Kong Monetary Authority (“HKMA”).

These banking disclosures are governed by the Bank’s disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the approach to determine the content, appropriateness and frequency of the disclosures, the approach to ensure the relevance and adequacy of the disclosures, and the internal control over the process for making the disclosures. While the statement is not required to be externally audited, it has been subject to independent review in accordance with the Bank’s disclosure policy.

1.2 Basis of preparation

The capital adequacy ratio (“CAR”) was compiled in accordance with the Banking (Capital) Rules (“BCR”) issued by the HKMA. In calculating the risk-weighted assets (“RWA”), the Bank adopted the Standardized (Credit Risk) Approach for credit risk and the Standardized (Market Risk) Approach for market risk. For operational risk, the capital requirement is calculated using the basic indicator approach.

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates.

Relevant information can be found in the Regulatory Disclosures section of our website, www.welab.bank.

1.3 Basis of consolidation

As of 31 December 2022, the Bank does not have any subsidiaries for consolidation purpose.

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2 Key prudential ratios

2.1 KM1: Key prudential ratios

The following table provides an overview of the Bank's key prudential ratios.

| | | At 31 December 2022 | At 30 September 2022 | At 30 June 2022 | At 31 March 2022 | At 31 December 2021 |
|-------------|---|---------------------------|----------------------------|--------------------|---------------------|---------------------------|
| In HK\$'000 | | (a) | (b) | (c) | (d) | (e) |
| | Regulatory capital (amount) | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 402,399 | 435,939 | 454,733 | 454,944 | 429,247 |
| 2 | Tier 1 | 402,399 | 435,939 | 454,733 | 454,944 | 429,247 |
| 3 | Total capital | 418,469 | 450,617 | 467,674 | 465,570 | 436,878 |
| | RWA (amount) | | | | | |
| 4 | Total RWA | 1,327,931 | 1,223,684 | 1,056,125 | 850,580 | 613,416 |
| | Risk-based regulatory capital ratios (as a percentage of RWA) | | | | | |
| 5 | CET1 ratio (%) | 30.3% | 35.6% | 43.1% | 53.5% | 70.0% |
| 6 | Tier 1 ratio (%) | 30.3% | 35.6% | 43.1% | 53.5% | 70.0% |
| 7 | Total capital ratio (%) | 31.5% | 36.8% | 44.3% | 54.7% | 71.2% |
| | Additional CET1 buffer requirements (as a percentage of RWA) | | | | | |
| 8 | Capital conservation buffer requirement (%) | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| 9 | Countercyclical capital buffer requirement (%) | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| 10 | Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs) | 0% | 0% | 0% | 0% | 0% |
| 11 | Total AI-specific CET1 buffer requirements (%) | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| 12 | CET1 available after meeting the AI's minimum capital requirements (%) | 16.8% | 21.8% | 29.3% | 39.7% | 56.2% |
| | Basel III leverage ratio | | | | | |
| 13 | Total leverage ratio (LR) exposure measure | 2,617,388 | 2,538,059 | 2,612,068 | 2,490,714 | 2,854,896 |
| 14 | LR (%) | 15.4% | 17.2% | 17.4% | 18.3% | 15.0% |
| | Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR) | | | | | |
| | Applicable to category 1 institution only: | | | | | |
| 15 | Total high quality liquid assets (HQLA) | N/A | N/A | N/A | N/A | N/A |
| 16 | Total net cash outflows | N/A | N/A | N/A | N/A | N/A |
| 17 | LCR (%) | N/A | N/A | N/A | N/A | N/A |
| | Applicable to category 2 institution only: | | | | | |
| 17a | LMR (%)* | 152.1% | 146.2% | 119.3% | 206.8% | 205.9% |
| | Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR) | | | | | |
| | Applicable to category 1 institution only: | | | | | |
| 18 | Total available stable funding | N/A | N/A | N/A | N/A | N/A |
| 19 | Total required stable funding | N/A | N/A | N/A | N/A | N/A |
| 20 | NSFR (%) | N/A | N/A | N/A | N/A | N/A |
| | Applicable to category 2A institution only: | | | | | |
| 20a | CFR (%) | N/A | N/A | N/A | N/A | N/A |

The increase in loans and advances to customers was the major driver leading to the decrease in CET 1 ratio and total capital ratio as of the year ended 31 December 2022.

* The LMR disclosed above represents the arithmetic mean of the average value of the LMR for each calendar month within the quarter.

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3 Overview of risk management and RWA

3.1 OVA: Overview of risk management

Overview of risk management

The Bank's risk management framework is designed to cover all business processes and ensure various risks are properly managed and controlled in the course of conducting business. The key financial risks related to the Bank's business include credit risk, counterparty credit risk, market risk, liquidity risk, interest rate risk, technology risk and operational risk. Further information on the management of these risks is set out below.

Risk culture

The Bank has implemented strong risk culture and considered it as one of the core values of the Bank and is endorsed by the Board of Directors ("the Board") and being followed by the senior management. The risk culture of the Bank is created through setting and complying with the risk management strategies and core risk management principles as well as establishing a sound risk management systems and effective risk management process to address material risks under normal and stressed conditions in a forward-looking approach. Risk awareness is promoted not only to business lines but also applied to all staff to enhance the Bank's overall risk management through appropriate training.

Risk governance

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 products risk management, compliance, treasury and financial control, and the risks associated with them to the Risk Committee, the Audit Committee, and the Executive Committee. 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 other senior management and risk stewards 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"), 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, acts 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.

Risk appetite

The Bank's Risk Appetite Statement is reviewed and approved by the Board from time to time and at least annually with reference to evolving industry and market development, which describes the level of risk that the Bank is prepared to accept in pursuit of the Bank's strategic objectives. The Bank adopts a low risk appetite in managing and controlling risks in a prudent manner with a view to achieving steady growth and reasonable returns.

Various ratios and risk limits are set according to the legal, regulatory and operational resilience requirements to limit and control the risk exposure of the Bank under a risk tolerance level acceptable to the Bank and commensurate with the risk adverse culture as well as prudent management practice.

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3 Overview of risk management and RWA (continued)

3.1 OVA: Overview of risk management (continued)

Stress testing

Stress testing is a risk management tool and involves the use of various techniques to assess the Bank's potential vulnerability to adverse changes in market conditions. It is conducted with hypothetical as well as historical assumptions. With the establishment of various alerting levels under different scenarios, it helps to alert the management to adverse unexpected outcomes related to a variety of risks and provides an indication to the amount of financial resources (including capital and liquidity) that might be necessary for absorbing losses caused by, or to withstand, severe stressed conditions.

Risk information reporting, risk measurement and reporting systems

The Bank has developed various systems for risk measurement and reporting for different risk exposures. Further information on the measurement and reporting of credit risk, market risk, liquidity risk and interest rate risk in the banking book exposures are provided in this statement. Regular report on risk exposures and risk management activities of the Bank is presented to the Risk Committee. The Risk Management Committee is responsible for overseeing the effective management of the Bank's principal risk types (as defined under Enterprise Risk Management Framework), and also other emerging risk types as highlighted in respective HKMA SPM (including IC-1, SA-1 etc). The Bank continues to invest significant resources in IT systems and processes in order to maintain and improve the risk management capabilities.

Risk mitigation

The Bank applies different strategies and processes to mitigate different risks on an on-going basis. The progresses of these mitigations are tracked in respective governance platforms.

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3 Overview of risk management and RWA (continued)

3.2 OV1: Overview of RWA

The following table sets out the Bank's RWA and the corresponding minimum capital requirements by risk types.

| | | At 31 December 2022 | At 30 September 2022 | At 31 December 2022 |
|-------------|---|------------------------|-------------------------|---------------------------------|
| | | (a) | (b) | (c) |
| In HK\$'000 | | RWA | | Minimum capital requirements |
| 1 | Credit risk for non-securitization exposures | 1,285,581 | 1,174,271 | 102,846 |
| 2 | Of which STC approach | 1,285,581 | 1,174,271 | 102,846 |
| 2a | Of which BSC approach | – | – | – |
| 3 | Of which foundation IRB approach | – | – | – |
| 4 | Of which supervisory slotting criteria approach | – | – | – |
| 5 | Of which advanced IRB approach | – | – | – |
| 6 | Counterparty default risk and default fund contributions | – | – | – |
| 7 | Of which SA-CCR | N/A | N/A | N/A |
| 7a | Of which CEM | – | – | – |
| 8 | Of which IMM(CCR) approach | – | – | – |
| 9 | Of which others | – | – | – |
| 10 | CVA risk | – | – | – |
| 11 | Equity positions in banking book under the simple risk-weight method and internal models method | – | – | – |
| 12 | Collective investment scheme ("CIS") exposures – LTA | N/A | N/A | N/A |
| 13 | CIS exposures – MBA | N/A | N/A | N/A |
| 14 | CIS exposures – FBA | N/A | N/A | N/A |
| 14a | CIS exposures – combination of approaches | N/A | N/A | N/A |
| 15 | Settlement risk | – | – | – |
| 16 | Securitization exposures in banking book | – | – | – |
| 17 | Of which SEC-IRBA | – | – | – |
| 18 | Of which SEC-ERBA (including IAA) | – | – | – |
| 19 | Of which SEC-SA | – | – | – |
| 19a | Of which SEC-FBA | – | – | – |
| 20 | Market risk | – | – | – |
| 21 | Of which STM approach | – | – | – |
| 22 | Of which IMM approach | – | – | – |

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3 Overview of risk management and RWA (continued)

3.2 OV1: Overview of RWA (continued)

| | | At 31 December 2022 | At 30 September 2022 | At 31 December 2022 |
|-------------|---|------------------------|-------------------------|---------------------------------|
| | | (a) | (b) | (c) |
| In HK\$'000 | | RWA | | Minimum capital requirements |
| 23 | Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect) | N/A | N/A | N/A |
| 24 | Operational risk | 42,350 | 49,413 | 3,388 |
| 24a | Sovereign concentration risk | N/A | N/A | N/A |
| 25 | Amounts below the thresholds for deduction (subject to 250% RW) | – | – | – |
| 26 | Capital floor adjustment | – | – | – |
| 26a | Deduction to RWA | – | – | – |
| 26b | Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital | – | – | – |
| 26c | Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital | – | – | – |
| 27 | Total | 1,327,931 | 1,223,684 | 106,234 |

Increase in RWA for credit risk for non-securitization exposures as of 31 December 2022 was mainly due to the increase in loans and advances to customers.

Decrease in RWA for operational risk as of the year ended 31 December 2022 was mainly due to the arithmetic mean of the aggregate capital charge on the gross income being used for the last 2 years.

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4 Linkages between financial statements and regulatory exposures

4.1 LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

| In HK\$'000 | At 31 December 2022 | | | | | | |
|--|---|---|---|---|----------------------------------|----------|------------------|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: | | | | |
| subject to credit risk framework | | | subject to counterparty credit risk framework | subject to the securitization framework | subject to market risk framework | | |
| Assets | | | | | | | |
| Balances with banks | 543,171 | 543,171 | 543,171 | – | – | – | – |
| Placements with banks | 182,998 | 182,998 | 182,998 | – | – | – | – |
| Financial investments | 328,765 | 328,765 | 328,765 | – | – | – | – |
| Loan and advances to customers | 1,410,273 | 1,410,273 | 1,410,273 | – | – | – | – |
| Due from a group company | 18,000 | – | – | – | – | – | – |
| Property and equipment | 10,563 | 10,563 | 10,563 | – | – | – | – |
| Right-of-use assets | 21,737 | 21,737 | 21,737 | – | – | – | – |
| Intangible assets | 80,760 | 80,760 | – | – | – | – | 80,760 |
| Other assets | 92,661 | 91,687 | 91,687 | – | – | – | – |
| Total assets | 2,688,928 | 2,669,954 | 2,589,194 | – | – | – | 80,760 |
| Liabilities | | | | | | | |
| Deposits from customers | 1,977,534 | 1,977,534 | – | – | – | – | 1,977,534 |
| Repurchase agreement at amortized cost | 65,000 | 65,000 | – | – | – | – | 65,000 |
| Lease liabilities | 29,668 | 29,668 | – | – | – | – | 29,668 |
| Other liabilities | 96,009 | 96,009 | – | – | – | – | 96,009 |
| Due to group companies | 18,584 | 18,584 | – | – | – | – | 18,584 |
| Total liabilities | 2,186,795 | 2,186,795 | – | – | – | – | 2,186,795 |

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4 Linkages between financial statements and regulatory exposures (continued)

4.2 LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

The following table shows the main sources of differences between regulatory exposure amounts and the carrying values in the financial statements.

| | | At 31 December 2022 | | | | |
|-------------|---|---------------------|-----------------------|--------------------------|------------------------------------|-----------------------|
| | | (a) | (b) | (c) | (d) | (e) |
| In HK\$'000 | | Items subject to: | | | | |
| | | Total | credit risk framework | securitization framework | counterparty credit risk framework | market risk framework |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 2,589,194 | 2,589,194 | | | |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | – | – | | | |
| 3 | Total net amount under regulatory scope of consolidation | 2,589,194 | 2,589,194 | | | |
| 4 | Off-balance sheet amounts | 93,937 | 93,937 | | | |
| 5 | Differences due to consideration of provisions | 26,637 | 26,637 | | | |
| 6 | Exposure amounts considered for regulatory purposes | 2,709,768 | 2,709,768 | | | |

4.3 LIA: Explanations of differences between accounting and regulatory exposure amounts

The key differences between accounting and regulatory exposure amounts are the differences due to consideration of provisions: The carrying values of assets in the financial statement are net of allowances. However, regulatory exposures under STC approach are net of specific allowances.

Off-balance Sheet items under regulatory purpose are converted into credit equivalent amount through the use of credit conversion factors (CCFs).

4.4 PV1: Prudential valuation adjustments

There is no prudential valuation adjustment as of 31 December 2022.

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5 Composition of regulatory capital

5.1 CC1: Composition of regulatory capital

The table below provides a breakdown of the constituent elements of total regulatory capital.

| | | At 31 December 2022 | |
|---|---|-----------------------|--|
| | | (a) | (b) |
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| CET1 capital: instruments and reserves | | | |
| 1 | Directly issued qualifying CET1 capital instruments plus any related share premium | 1,786,000 | (2) |
| 2 | Retained earnings | (1,316,629) | (3) |
| 3 | Disclosed reserves | 13,788 | (4) |
| 4 | <i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i> | Not applicable | Not applicable |
| 5 | Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group) | – | |
| 6 | CET1 capital before regulatory deductions | 483,159 | |
| CET1 capital: regulatory deductions | | | |
| 7 | Valuation adjustments | – | |
| 8 | Goodwill (net of associated deferred tax liabilities) | – | |
| 9 | Other intangible assets (net of associated deferred tax liabilities) | 80,760 | (1) |
| 10 | Deferred tax assets (net of associated deferred tax liabilities) | – | |
| 11 | Cash flow hedge reserve | – | |
| 12 | Excess of total EL amount over total eligible provisions under the IRB approach | – | |
| 13 | Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions | – | |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | – | |
| 15 | Defined benefit pension fund net assets (net of associated deferred tax liabilities) | – | |
| 16 | Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet) | – | |
| 17 | Reciprocal cross-holdings in CET1 capital instruments | – | |
| 18 | Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | |

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5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

| | | At 31 December 2022 | |
|---------------------------------|---|---------------------|--|
| | | (a) | (b) |
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 19 | Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | |
| 20 | Mortgage servicing rights (net of associated deferred tax liabilities) | Not applicable | Not applicable |
| 21 | Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities) | Not applicable | Not applicable |
| 22 | Amount exceeding the 15% threshold | Not applicable | Not applicable |
| 23 | of which: significant investments in the ordinary share of financial sector entities | Not applicable | Not applicable |
| 24 | of which: mortgage servicing rights | Not applicable | Not applicable |
| 25 | of which: deferred tax assets arising from temporary differences | Not applicable | Not applicable |
| 26 | National specific regulatory adjustments applied to CET1 capital | – | |
| 26a | Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) | – | |
| 26b | Regulatory reserve for general banking risks | – | |
| 26c | Securitization exposures specified in a notice given by the MA | – | |
| 26d | Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings | – | |
| 26e | Capital shortfall of regulated non-bank subsidiaries | – | |
| 26f | Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base) | – | |
| 27 | Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions | – | |
| 28 | Total regulatory deductions to CET1 capital | 80,760 | |
| 29 | CET1 capital | 402,399 | |
| AT1 capital: instruments | | | |
| 30 | Qualifying AT1 capital instruments plus any related share premium | – | |
| 31 | of which: classified as equity under applicable accounting standards | – | |
| 32 | of which: classified as liabilities under applicable accounting standards | – | |

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5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

| | | At 31 December 2022 | |
|---|--|---------------------|--|
| | | (a) | (b) |
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 33 | <i>Capital instruments subject to phase-out arrangements from AT1 capital</i> | – | |
| 34 | AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group) | – | |
| 35 | <i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i> | – | |
| 36 | AT1 capital before regulatory deductions | – | |
| AT1 capital: regulatory deductions | | | |
| 37 | Investments in own AT1 capital instruments | – | |
| 38 | Reciprocal cross-holdings in AT1 capital instruments | – | |
| 39 | Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | |
| 40 | Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | – | |
| 41 | National specific regulatory adjustments applied to AT1 capital | – | |
| 42 | Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions | – | |
| 43 | Total regulatory deductions to AT1 capital | – | |
| 44 | AT1 capital | – | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 402,399 | |
| Tier 2 capital: instruments and provisions | | | |
| 46 | Qualifying Tier 2 capital instruments plus any related share premium | – | |
| 47 | <i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i> | – | |
| 48 | Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group) | – | |
| 49 | <i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i> | – | |
| 50 | Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital | 16,070 | |

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5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

| | | At 31 December 2022 | |
|-----|--|---------------------|--|
| | | (a) | (b) |
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 51 | Tier 2 capital before regulatory deductions | 16,070 | |
| | Tier 2 capital: regulatory deductions | | |
| 52 | Investments in own Tier 2 capital instruments | – | |
| 53 | Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities | – | |
| 54 | Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold) | – | |
| 54a | Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only) | – | |
| 55 | Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions) | – | |
| 55a | Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions) | – | |
| 56 | National specific regulatory adjustments applied to Tier 2 capital | – | |
| 56a | Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital | – | |
| 56b | Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR | – | |
| 57 | Total regulatory adjustments to Tier 2 capital | – | |
| 58 | Tier 2 capital (T2) | 16,070 | |
| 59 | Total regulatory capital (TC = T1 + T2) | 418,469 | |
| 60 | Total RWA | 1,327,931 | |
| | Capital ratios (as a percentage of RWA) | | |
| 61 | CET1 capital ratio | 30.3% | |
| 62 | Tier 1 capital ratio | 30.3% | |
| 63 | Total capital ratio | 31.5% | |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

| | | At 31 December 2022 | |
|---|---|-----------------------|--|
| | | (a) | (b) |
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 64 | Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements) | 3.5% | |
| 65 | of which: capital conservation buffer requirement | 2.5% | |
| 66 | of which: bank specific countercyclical capital buffer requirement | 1.0% | |
| 67 | of which: higher loss absorbency requirement | – | |
| 68 | CET1 (as a percentage of RWA) available after meeting minimum capital requirements | 16.8% | |
| National minima (if different from Basel 3 minimum) | | | |
| 69 | National CET1 minimum ratio | Not applicable | Not applicable |
| 70 | National Tier 1 minimum ratio | Not applicable | Not applicable |
| 71 | National Total capital minimum ratio | Not applicable | Not applicable |
| Amounts below the thresholds for deduction (before risk weighting) | | | |
| 72 | Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation | – | |
| 73 | Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | – | |
| 74 | Mortgage servicing rights (net of associated deferred tax liabilities) | Not applicable | Not applicable |
| 75 | Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities) | Not applicable | Not applicable |
| Applicable caps on the inclusion of provisions in Tier 2 capital | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap) | – | |
| 77 | Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA | – | |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap) | – | |
| 79 | Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA | – | |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

| | | At 31 December 2022 | |
|--|--|-----------------------|--|
| | | (a) | (b) |
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022) | | | |
| 80 | <i>Current cap on CET1 capital instruments subject to phase-out arrangements</i> | Not applicable | Not applicable |
| 81 | <i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i> | Not applicable | Not applicable |
| 82 | <i>Current cap on AT1 capital instruments subject to phase-out arrangements</i> | – | |
| 83 | <i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i> | – | |
| 84 | <i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i> | – | |
| 85 | <i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i> | – | |

Notes to the Template

| Row No. | Description | Hong Kong basis HK\$'000 | Basel III basis HK\$'000 |
|---------|--|-----------------------------|-----------------------------|
| 9 | Other intangible assets (net of associated deferred tax liabilities) | 80,760 | 80,760 |
| | <p><u>Explanation</u> As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (“MSRs”) may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI’s financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 9 (i.e. the amount reported under the “Hong Kong basis”) adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p> | | |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

Notes to the Template (continued)

| Row No. | Description | Hong Kong basis HK\$'000 | Basel III basis HK\$'000 |
|---------|--|-----------------------------|-----------------------------|
| 10 | Deferred tax assets (net of associated deferred tax liabilities) | – | – |
| | <p><u>Explanation</u> As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 10 (i.e. the amount reported under the “Hong Kong basis”) adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSR, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p> | | |
| 18 | Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | – |
| | <p><u>Explanation</u> For the purpose of determining the total amount of insignificant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI’s business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 18 (i.e. the amount reported under the “Hong Kong basis”) adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI’s connected companies which were subject to deduction under the Hong Kong approach.</p> | | |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

Notes to the Template (continued)

| Row No. | Description | Hong Kong basis HK\$'000 | Basel III basis HK\$'000 |
|---------|--|-----------------------------|-----------------------------|
| 19 | Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | – |
| | <p><u>Explanation</u> For the purpose of determining the total amount of significant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p> | | |
| 39 | Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | – | – |
| | <p><u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p> | | |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.1 CC1: Composition of regulatory capital (continued)

Notes to the Template (continued)

| Row No. | Description | Hong Kong basis HK\$'000 | Basel III basis HK\$'000 |
|---|--|-----------------------------|-----------------------------|
| 54 | <p>Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)</p> | – | – |
| <p><u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in Tier 2 capital instruments and non-capital LAC liabilities may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 54 (i.e. the amount reported under the “Hong Kong basis”) adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI’s connected companies which were subject to deduction under the Hong Kong approach.</p> | | | |
| <p>Remarks:</p> <p>The amount of the 10% threshold and 5% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</p> | | | |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.2 CC2: Reconciliation of regulatory capital to balance sheet

| In HK\$'000 | At 31 December 2022 | | |
|--|--|---|-----------|
| | (a) | (b) | (c) |
| | Balance sheet as in published financial statements | Under regulatory scope of consolidation | Reference |
| Assets | | | |
| Balances with banks | 543,171 | 543,171 | |
| Placements with banks | 182,998 | 182,998 | |
| Financial investments | 328,765 | 328,765 | |
| Loan and advances to customers | 1,410,273 | 1,410,273 | |
| Due from a group company | 18,000 | – | |
| Property and equipment | 10,563 | 10,563 | |
| Right-of-use assets | 21,737 | 21,737 | |
| Intangible assets | 80,760 | 80,760 | (1) |
| Other assets | 92,661 | 91,687 | |
| Total assets | 2,688,928 | 2,669,954 | |
| Liabilities | | | |
| Deposits from customers | 1,977,534 | 1,977,534 | |
| Repurchase agreement at amortized cost | 65,000 | 65,000 | |
| Lease liabilities | 29,668 | 29,668 | |
| Other liabilities | 96,009 | 96,009 | |
| Due to group companies | 18,584 | 18,584 | |
| Total liabilities | 2,186,795 | 2,186,795 | |
| Equity | | | |
| Share capital | 1,804,000 | 1,786,000 | |
| Of which: amount eligible for CET1 | 1,804,000 | 1,786,000 | (2) |
| Of which: amount eligible for AT1 | – | – | |
| Reserves | (1,301,867) | (1,302,841) | |
| Of which: Retained earnings | (1,315,655) | (1,316,629) | (3) |
| Of which: Reserves | 13,788 | 13,788 | (4) |
| Total equity | 502,133 | 483,159 | |
| Total liabilities and equity | 2,688,928 | 2,669,954 | |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.3 CCA: Main features of regulatory capital instruments

| | | (a) |
|----|--|--|
| | | CET 1 Capital Ordinary shares |
| 1 | Issuer | Welab Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | Not applicable |
| 3 | Governing law(s) of the instrument | Hong Kong law |
| | <i>Regulatory treatment</i> | |
| 4 | Transitional Basel III rules ¹ | Not applicable |
| 5 | Post-transitional Basel III rules ² | Common Equity Tier 1 |
| 6 | Eligible at solo / group / solo and group | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary Shares |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | HK\$1,804 million (as of 31 December 2022) |
| 9 | Par value of instrument | Not applicable |
| 10 | Accounting classification | Shareholders' Equity |
| 11 | Original date of issuance | Various |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity date |
| 14 | Issuer call subject to prior supervisory approval | Not applicable |
| 15 | Optional call date, contingent call dates and redemption amount | Not applicable |
| 16 | Subsequent call dates, if applicable | Not applicable |
| | <i>Coupons / dividends</i> | |
| 17 | Fixed or floating dividend / coupon | Floating |
| 18 | Coupon rate and any related index | Not applicable |
| 19 | Existence of a dividend stopper | No |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully Discretionary |
| 21 | Existence of step-up or other incentive to redeem | No |
| 22 | Non-cumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | Not applicable |
| 25 | If convertible, fully or partially | Not applicable |
| 26 | If convertible, conversion rate | Not applicable |
| 27 | If convertible, mandatory or optional conversion | Not applicable |
| 28 | If convertible, specify instrument type convertible into | Not applicable |
| 29 | If convertible, specify issuer of instrument it converts into | Not applicable |
| 30 | Write-down feature | No |

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the BCR.

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the BCR.

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

5 Composition of regulatory capital (continued)

5.3 CCA: Main features of regulatory capital instruments (continued)

| | | (a) |
|----|---|--|
| | | CET 1 Capital Ordinary shares |
| 31 | If write-down, write-down trigger(s) | Not applicable |
| 32 | If write-down, full or partial | Not applicable |
| 33 | If write-down, permanent or temporary | Not applicable |
| 34 | If temporary write-down, description of write-up mechanism | Not applicable |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned). | Not applicable |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | Not applicable |

6 Macroprudential supervisory measures

6.1 CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer (“CCyB”)

| At 31 December 2022 | | | | |
|---|--|---|---------------------------|-----------------|
| | (a) | (c) | (d) | (e) |
| Geographical breakdown by Jurisdiction (J) | Applicable JCCyB ratio in effect | RWA used in computation of CCyB ratio | AI-specific CCyB ratio | CCyB amount |
| | % | HK\$'000 | % | HK\$'000 |
| 1 | Hong Kong SAR | 1% | 1,203,968 | |
| 2 | Sum | | 1,203,968 | |
| 3 | Total | | 1,221,903 | 0.99% 13,080 |

WELAB BANK LIMITED**REGULATORY DISCLOSURE STATEMENT****7 Leverage Ratio****7.1 LR1: Summary comparison of accounting assets against leverage ratio exposure measure**

| In HK\$'000 | | At 31 December 2022 |
|-------------|--|------------------------------|
| | | (a) |
| | | Value under the LR framework |
| 1 | Total consolidated assets as per published financial statements | 2,688,928 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | – |
| 3 | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure | – |
| 4 | Adjustments for derivative contracts | – |
| 5 | Adjustment for SFTs (i.e. repos and similar secured lending) | – |
| 6 | Adjustment for off-balance sheet (“OBS”) items (i.e. conversion to credit equivalent amounts of OBS exposures) | 9,394 |
| 6a | Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure | (174) |
| 7 | Other adjustments | (80,760) |
| 8 | Leverage ratio exposure measure | 2,617,388 |

Other adjustments mainly represent intangible assets deducted in determining Tier 1 capital. These are excluded for deriving the leverage ratio exposure in accordance with the “Leverage Ratio Framework” issued by the HKMA.

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

7 Leverage Ratio (continued)

7.2 LR2: Leverage ratio

| | | At 31 December 2022 | At 30 September 2022 |
|--|--|------------------------|-------------------------|
| In HK\$'000 | | (a) | (b) |
| On-balance sheet exposures | | | |
| 1 | On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral) | 2,721,864 | 2,635,426 |
| 2 | Less: Asset amounts deducted in determining Tier 1 capital | (80,760) | (70,000) |
| 3 | Total on-balance sheet exposures (excluding derivative contracts and SFTs) | 2,641,104 | 2,565,426 |
| Exposures arising from derivative contracts | | | |
| 4 | Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting) | – | – |
| 5 | Add-on amounts for PFE associated with all derivative contracts | – | – |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | – | – |
| 7 | Less: Deductions of receivables assets for cash variation margin provided under derivative contracts | – | – |
| 8 | Less: Exempted CCP leg of client-cleared trade exposures | – | – |
| 9 | Adjusted effective notional amount of written credit derivative contracts | – | – |
| 10 | Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts | – | – |
| 11 | Total exposures arising from derivative contracts | – | – |
| Exposures arising from SFTs | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | – | – |
| 13 | Less: Netted amounts of cash payables and cash receivables of gross SFT assets | – | – |
| 14 | CCR exposure for SFT assets | – | – |
| 15 | Agent transaction exposures | – | – |
| 16 | Total exposures arising from SFTs | – | – |
| Other off-balance sheet exposures | | | |
| 17 | Off-balance sheet exposure at gross notional amount | 93,937 | – |
| 18 | Less: Adjustments for conversion to credit equivalent amounts | (84,543) | – |
| 19 | Off-balance sheet items | 9,394 | – |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 402,399 | 435,939 |
| 20a | Total exposures before adjustments for specific and collective provisions | 2,650,498 | 2,565,426 |
| 20b | Adjustments for specific and collective provisions | (33,110) | (27,367) |
| 21 | Total exposures after adjustments for specific and collective provisions | 2,617,388 | 2,538,059 |
| Leverage ratio | | | |
| 22 | Leverage ratio | 15.4% | 17.2% |

The drop of leverage ratio is due to increase in on-balance sheet exposure such as balances with banks and loan and advances to customers.

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

8 Liquidity

8.1 LIQA: Liquidity Risk Management

Qualitative disclosure related to liquidity risk management

Governance of liquidity risk management

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 Liquidity Risk Team, 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.

Liquidity risk management

The Bank's operation is mainly funded by customer deposits and shareholder's fund. Diversified and stable funding sources are maintained by determining the appropriate mix of liabilities and building strong and lasting relationships with key fund providers in accordance with the liquidity risk management policy.

Adequate liquidity will be maintained at all times to meet obligations when they fall due in normal circumstances and an appropriate mix of additional stock of high-quality liquid assets will be maintained to provide contingent liquidity in the event of a funding crisis.

Monitoring and reporting take the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Stress testing

The liquidity stress-testing results form an important component in assisting the Risk Committee with reviewing and endorsing the Bank's risk appetite levels, which are defined by internal limits on various risk ratios, as well as assisting the ALCO in managing the overall liquidity of the Bank and to make informed strategic business decisions.

Contingency funding plan

The contingency funding plan is a component of the Bank's business contingency plan which describes the Bank's strategy for dealing with any liquidity problems, and the procedures for making up cash flow deficits in emergency situations.

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

8 Liquidity (continued)

8.1 LIQA: Liquidity Risk Management (continued)

Quantitative disclosure related to liquidity risk management

Customised measurement tools or metrics

A cash-flow approach is adopted to manage liquidity risk by ensuring that a net positive cash-flow position is maintained or otherwise sufficient cash can be generated from assets or funding sources to cover any funding shortfalls. The projections are forward-looking and covers liquidity risks stemming from on-balance sheet assets and liabilities and off-balance sheet positions. Cash-flow projections are made over daily time bands of up to 95 days ahead and wider time bands of up to 1 year ahead. Internal limits are set to control the size of the cumulative net mismatch positions for the shorter-term time bands. Cash-flow projections cover positions in HK dollar and in all currencies aggregated. Separate cash-flow projections will also be performed for other significant currencies when its denominated liabilities accounted for more than 5% of the Bank's total liabilities.

Concentration limits on collateral pools and sources of funding

Retail deposits are the major and important part of the Bank's funding base, and the composition and quality of such deposits are carefully monitored and closely managed.

Liquidity exposures and funding needs of the Bank

The Bank, designated as a Category 2 bank, is not required to calculate the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") under the Banking (Liquidity) Rules. Instead, the Liquidity Maintenance Ratio ("LMR") is used to measure the short-term liquidity exposures of the Bank against its funding needs. The LMR is a ratio, expressed as a percentage, of the amount of a category 2 institution's "liquefiable assets" to the amount of the institution's "qualifying liabilities" (after deductions) over a calendar month. Under the Banking Ordinance and communication with HKMA, the Bank is subject to the statutory limit of the LMR, which is prescribed at 25%.

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

8 Liquidity (continued)

8.1 LIQA: Liquidity Risk Management (continued)

Contractual maturity profile

The table below analyses the on-balance sheet items, broken down into maturity buckets of the Bank as of 31 December 2022 based on the completion instructions of the HKMA MA(BS)23 – Liquidity Monitoring Tools:

| In HK\$'000 | At 31 December 2022 | | | | | | | | | | | Balancing amount |
|--|---------------------|----------------|----------------|-------------------|--------------------------|---------------------------|-------------------------|-----------------------|------------------------|------------------------|----------------|------------------|
| | Total amount | Next day | 2 to 7 days | 8 days to 1 month | > 1 month up to 3 months | > 3 months up to 6 months | > 6 months up to 1 year | >1 year up to 2 years | >2 years up to 3 years | >3 years up to 5 years | Over 5 years | |
| On-balance sheet assets | | | | | | | | | | | | |
| Due from MA for a/c of Exchange Fund | 471,904 | 471,904 | - | - | - | - | - | - | - | - | - | - |
| Due from banks | 254,632 | 71,351 | 123,073 | 20,022 | 40,186 | - | - | - | - | - | - | - |
| Debt securities, prescribed instruments and structured financial instruments held (net of short positions) | 323,043 | 257,576 | 65,467 | - | - | - | - | - | - | - | - | - |
| Loans and advances to non-bank customers | 1,466,126 | 2,199 | 29,670 | 35,059 | 91,232 | 134,150 | 258,008 | 395,171 | 250,720 | 247,482 | 10,722 | 11,713 |
| Other assets | 199,420 | - | - | 469 | - | - | 384 | 5,099 | 17,935 | - | 3,000 | 172,533 |
| Total | 2,715,125 | 803,030 | 218,210 | 55,550 | 131,418 | 134,150 | 258,392 | 400,270 | 268,655 | 247,482 | 13,722 | 184,246 |
| On-balance sheet liabilities | | | | | | | | | | | | |
| Deposits from non-bank customers | | | | | | | | | | | | |
| (a) Pledged deposits | - | - | - | - | - | - | - | - | - | - | - | - |
| (b) Demand, savings and current account deposits | 328,235 | 328,235 | - | - | - | - | - | - | - | - | - | - |
| (c) Term, call and notice deposits | 1,660,657 | 1,793 | 46,294 | 160,968 | 364,324 | 498,127 | 353,548 | 235,603 | - | - | - | - |
| Amount payable arising from securities financing transactions (other than securities swap transactions) | 65,000 | 65,000 | - | - | - | - | - | - | - | - | - | - |
| Other Liabilities | 136,397 | 702 | 4,198 | 70,781 | 23,694 | 4,660 | 9,112 | 14,903 | - | - | - | 8,347 |
| Capital and reserves | 502,133 | - | - | - | - | - | - | - | - | - | - | 502,133 |
| Total | 2,692,422 | 395,730 | 50,492 | 231,749 | 388,018 | 502,787 | 362,660 | 250,506 | - | - | - | 510,480 |
| Contractual Maturity Mismatch | | 407,300 | 167,718 | (176,199) | (256,600) | (368,637) | (104,268) | 149,764 | 268,655 | 247,482 | 13,722 | |
| Cumulative Contractual Maturity Mismatch | | 407,300 | 575,018 | 398,819 | 142,219 | (226,418) | (330,686) | (180,922) | 87,733 | 335,215 | 348,937 | |

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9 Credit Risk for non-securitization exposures

9.1 CRA: General information about credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. The Bank's exposure to credit risk arises from treasury and retail loan products.

The approach used for defining credit risk management policy and setting credit risk limits is described in note 3(a) to the audited financial statements.

Various analytical reports on credit risk exposures and credit risk management are provided regularly to senior management, including the portfolio distribution and credit quality, credit portfolio risk monitoring and compliance, impairment allowance and large exposures and risk concentrations.

The Bank's organization structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits. The Credit Risk Team is responsible for establishing credit policies, monitoring portfolio quality and impairment charge, ensuring compliance with statutory and internal lending limits, evaluating credit applications, making credit decisions etc.

The Chief Risk Officer takes charges of the Bank's overall credit risk management. He is responsible for ensuring that the Bank's risk management framework, all related policies and control procedures, and business processes are effective, adequate, properly implemented and consistent with the overall risk appetite of the Bank and credit related regulatory requirements. He is also responsible for assessing, evaluating and monitoring the use of risk limits and ensuring that quantifiable risks are within the approved limits.

Various units of the Bank have their respective credit risk management responsibilities. Business departments, being the first line of defence, are responsible for performing on-going 'know your customer' checks. The Credit Risk Team is independent from the business departments, acts as the second line of defence, is responsible for independent evaluation of credit applications, performing credit monitoring and review, and ensuring that all the relevant regulatory and statutory requirements and limits are complied with by the Bank. The Internal Audit Department, being the third line of defence, is responsible for examining and evaluating the adequacy and effectiveness of the internal controls, risk management and governance systems and processes of the Bank, and assessing compliance with regulatory and statutory requirements.

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9.1 Credit Risk for non-securitization exposures (continued)

9.2 CR1: Credit quality of exposures

The following table sets out an overview of the credit quality of on- and off-balance sheet exposures.

| In HK\$'000 | | At 31 December 2022 | | | | | | |
|------------------------|--------------------------------|---|---|----------------------------|--|---------------|---|-----------------------|
| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| | | Gross carrying amounts of | | Allowances/ impairments | Of which ECL accounting provisions for credit losses on STC approach exposures | | Of which ECL accounting provisions for credit losses on IRB approach exposures | Net values (a+b-c) |
| Defaulted exposures | Non- defaulted exposures | Allocated in regulatory category of specific provisions | Allocated in regulatory category of collective provisions | | | | | |
| 1 | Loans | 6,497 | 2,186,166 | 32,894 | 6,472 | 26,422 | – | 2,159,769 |
| 2 | Debt securities | – | 329,782 | 42 | – | 42 | – | 329,740 |
| 3 | Off-balance sheet exposures | – | 93,937 | 174 | – | 174 | – | 93,763 |
| 4 | Total | 6,497 | 2,609,885 | 33,110 | 6,472 | 26,638 | – | 2,583,272 |

9.3 CR2: Changes in defaulted loans and debt securities

The following table provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as of 31 December 2022.

| In HK\$'000 | | (a) |
|-------------|--|--------------|
| 1 | Defaulted loans and debt securities at end of the previous reporting period (30 June 2022) | – |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 13,992 |
| 3 | Returned to non-defaulted status | (691) |
| 4 | Amounts written off | (6,804) |
| 5 | Other changes | – |
| 6 | Defaulted loans and debt securities at end of the current reporting period (31 December 2022) | 6,497 |

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9 Credit Risk for non-securitization exposures (continued)

9.4 CRB: Additional disclosure related to credit quality of exposures

The accounting definition of impaired exposures and the regulatory definition of defaulted exposures are generally aligned. In general, treasury and retail loan products overdue for more than 90 days are considered impaired unless other information is available to indicate the contrary. Treasury and retail loan products with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Treasury and retail loan products repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Treasury and retail loan products repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

The approach for determining impairment of financial assets is provided in notes 2(h) and 3(a) to the 2022 audited financial statements.

As of 31 December 2022, none of the treasury products has any indication of impairment.

9.5 CRC: Qualitative disclosures related to credit risk mitigation

The Bank has set out maximum credit exposure limit to each individual or counterparty in relations to the Banking (Exposures Limits) Rules. For capital calculation, the Bank has not used any on-balance sheet or off-balance sheet recognised netting for credit risk mitigation.

9.6 CR3: Overview of recognized credit risk mitigation

The following table sets out the extent of credit risk exposures covered by different types of recognised credit risk mitigation.

| | | At 31 December 2022 | | | | |
|-------------|--------------------|--------------------------------------|-------------------------|--|--|---|
| | | (a) | (b1) | (b) | (d) | (f) |
| In HK\$'000 | | Exposures unsecured: carrying amount | Exposures to be secured | Exposures secured by recognized collateral | Exposures secured by recognized guarantees | Exposures secured by recognized credit derivative contracts |
| 1 | Loans | 2,159,769 | – | – | – | – |
| 2 | Debt securities | 329,740 | – | – | – | – |
| 3 | Total | 2,489,509 | – | – | – | – |
| 4 | Of which defaulted | 6,497 | – | – | – | – |

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9 Credit Risk for non-securitization exposures (continued)

9.7 CRD: Qualitative disclosures on use of ECAI ratings under STC approach

Under the standardised approach (“STC”) for the calculation of credit risk within the Basel capital framework, banks are required to use credit assessments provided by external credit assessment institutions (“ECAI”), recognised by the HKMA for the purposes of regulatory capital calculation, to determine the risk-weights of the banks’ credit exposures.

Standard & Poor’s Ratings Services, Moody’s Investors Service and Fitch Ratings are the ECAI that the Bank has used for the determination of risk weightings for the following exposures:

- Sovereign exposures
- Bank exposures
- Corporate exposures

The mapping of ECAI ratings of the above exposures to the risk weights under standardised approach follows the process as prescribed in Part 4 of the BCR. Where an exposure of debt securities has an issue-specific external credit assessment, such assessment will be used. In case there is no specific issue rating published by the ECAI, the issuer rating is applied to the senior unsecured claims of that issuer subject to the conditions prescribed by the BCR.

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9 Credit Risk for non-securitization exposures (continued)

9.8 CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

The table below shows the effect of any recognized credit risk mitigation (“CRM”) on the calculation of credit risk capital requirements under STC approach with additional information of RWA density showing a synthetic metric on riskiness of each exposure class.

| In HK\$'000 | | At 31 December 2022 | | | | | |
|-------------|--|-------------------------------|--------------------------|---------------------------------|--------------------------|---------------------|-------------|
| | | (a) | (b) | (c) | (d) | (e) | (f) |
| | | Exposures pre-CCF and pre-CRM | | Exposures post-CCF and post-CRM | | RWA and RWA density | |
| | Exposure classes | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA density |
| 1 | Sovereign exposures | 694,030 | – | 694,030 | – | – | 0% |
| 2 | PSE exposures | – | – | – | – | – | – |
| 2a | Of which: domestic PSEs | 16,006 | – | 16,006 | – | 3,201 | 20% |
| 2b | Of which: foreign PSEs | – | – | – | – | – | – |
| 3 | Multilateral development bank exposures | – | – | – | – | – | – |
| 4 | Bank exposures | 300,883 | – | 300,883 | – | 60,476 | 20% |
| 5 | Securities firm exposures | – | – | – | – | – | – |
| 6 | Corporate exposures | 45,398 | – | 45,398 | – | 22,699 | 50% |
| 7 | CIS exposures | – | – | – | – | – | – |
| 8 | Cash items | – | – | – | – | – | – |
| 9 | Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | – | – | – | – | – | – |
| 10 | Regulatory retail exposures | 1,440,635 | 93,937 | 1,440,635 | – | 1,080,476 | 75% |
| 11 | Residential mortgage loans | – | – | – | – | – | – |
| 12 | Other exposures which are not past due exposures | 118,661 | – | 118,661 | – | 118,661 | 100% |
| 13 | Past due exposures | 45 | – | 45 | – | 68 | 150% |
| 14 | Significant exposures to commercial entities | – | – | – | – | – | – |
| 15 | Total | 2,615,658 | 93,937 | 2,615,658 | – | 1,285,581 | 49% |

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9 Credit Risk for non-securitization exposures (continued)

9.9 CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

The table below provides the breakdown of credit risk exposures by asset classes and by risk weights under STC approach.

| | | At 31 December 2022 | | | | | | | | | | |
|----------------|--|---------------------|----------|----------------|----------|---------------|------------------|----------------|-----------|----------|----------|--|
| In HK\$'000 | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (ha) | (i) | (j) |
| Exposure class | Risk Weight | | | | | | | | | | | Total credit risk exposures amount (post CCF and post CRM) |
| | | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Others | |
| 1 | Sovereign exposures | 694,030 | - | - | - | - | - | - | - | - | - | 694,030 |
| 2 | PSE exposures | - | - | - | - | - | - | - | - | - | - | - |
| 2a | Of which: domestic PSEs | - | - | 16,006 | - | - | - | - | - | - | - | 16,006 |
| 2b | Of which: foreign PSEs | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Multilateral development bank exposures | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Bank exposures | - | - | 299,883 | - | 1,000 | - | - | - | - | - | 300,883 |
| 5 | Securities firm exposures | - | - | - | - | - | - | - | - | - | - | - |
| 6 | Corporate exposures | - | - | - | - | 45,398 | - | - | - | - | - | 45,398 |
| 7 | CIS exposures | - | - | - | - | - | - | - | - | - | - | - |
| 8 | Cash items | - | - | - | - | - | - | - | - | - | - | - |
| 9 | Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | - | - | - | - | - | - | - | - | - | - | - |
| 10 | Regulatory retail exposures | - | - | - | - | - | 1,440,635 | - | - | - | - | 1,440,635 |
| 11 | Residential mortgage loans | - | - | - | - | - | - | - | - | - | - | - |
| 12 | Other exposures which are not past due exposures | - | - | - | - | - | - | 118,661 | - | - | - | 118,661 |
| 13 | Past due exposures | - | - | - | - | - | - | - | 45 | - | - | 45 |
| 14 | Significant exposures to commercial entities | - | - | - | - | - | - | - | - | - | - | - |
| 15 | Total | 694,030 | - | 315,889 | - | 46,398 | 1,440,635 | 118,661 | 45 | - | - | 2,615,658 |

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10 Counterparty Credit Risk

10.1 CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

Counterparty credit risk (“CCR”) arises for derivatives and Securities Financing Transaction (“SFTs”). It is calculated in both the trading and non-trading books, and is the risk that a counterparty may default before settlement of the transaction. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default. Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. The Bank adopts the current exposure method to measure the credit equivalent amount, which comprises current exposures and potential future exposures. Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. The Bank adopts the current exposure method to measure the credit equivalent amount, which comprises current exposures and potential future exposures.

As of 31 December 2022, the Bank does not have any counterparty default risk exposures.

11 Market Risk

11.1 MRA: Qualitative disclosures related to market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices. Market risk exposures are separated into trading portfolios and non-trading portfolios.

The Bank’s market risk exposures mainly arise from non-trading portfolios which comprise positions that related to the interest rate risk management of our banking assets and liabilities, financial investments designated as financial assets measured at Fair Value through Other Comprehensive Income (“FVOCI”), financial assets measured at amortised cost and exposures arising from our daily risk management operations.

The Bank has formulated market risk management policy to identify, measure, monitor, control, and report on the market risk, where appropriate, to allocate adequate capital to cover those risks.

Risk appetite has been defined in accordance with the Bank’s business strategies and objectives to govern the market risk activities and under the approved risk appetite, risk limits and management action triggers are set with reference to the nature, volume of transaction and risk appetite of the Bank. Market Risk Appetite is approved by the Board and the market risk limits are approved by the RC. Various systems are employed to facilitate the calculation, measurement, analysis and reporting of market risk and risk reports are prepared for different level of governance on a regular basis. Through different policies, sensitivity analysis, stress testing and limit structures, market risk analysis is conducted on different dimensions, including but not limited to risk factors, concentration, currencies and duration in the form of potential loss and impact to capital adequacy.

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11 Market Risk (continued)

11.2 MR1: Market risk under STM approach

The table below provides information on marked risk RWA.

| In HK\$'000 | | At 31 December 2022 |
|-------------|---|---------------------|
| | | (a) |
| | | RWA |
| | Outright product exposures | |
| 1 | Interest rate exposures (general and specific risk) | – |
| 2 | Equity exposures (general and specific risk) | – |
| 3 | Foreign exchange (including gold) exposures | – |
| 4 | Commodity exposures | – |
| | Option exposures | |
| 5 | Simplified approach | – |
| 6 | Delta-plus approach | – |
| 7 | Other approach | – |
| 8 | Securitization exposures | – |
| 9 | Total | – |

12 Interest rate risk in banking book

12.1 IRRBBA: Interest rate exposures in banking book

(a) Risk management purpose

Interest rate risk in the banking book is defined as the risk to both the earnings and the economic value of Welab Bank Limited (the “Bank”) arising from adverse movements in interest rates. Changes in market interest rates impact the economic value of assets, liabilities and relevant off-balance positions (Economic Value of Equity (“EVE”)) as well as the earnings from banking activities (Net Interest Income (“NII”)). The primary goal of the management of Interest Rate Risk in the Banking Book (“IRRBB”) is to ensure that interest rate risk exposures are maintained within the Bank’s risk tolerances.

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12 Interest rate risk in banking book (continued)

12.1 IRRBBA: Interest rate exposures in banking book (continued)

(b) Risk Management strategies

The Bank's interest rate exposures in the banking book mainly arise from lending, deposit taking and treasury activities, including investment of surplus fund in debt securities for the purposes of liquidity risk management and optimisation of the Bank's financial position. Interest rate risk arising from interest rate-sensitive assets and liabilities has several aspects: basis risk arising from different interest rate benchmarks and gap risk arising from the term structure of banking book instruments. It also relates to positions from non-interest rate-sensitive assets and liabilities including non-maturing deposits as well as from interest rate-sensitive loans and liabilities.

Within the context of relevant IRRBB Policy approved by the Risk Committee ("RC"), it defines the organizational structure, responsibilities, limit structure and the methodological standards for analyzing and measuring IRRBB, reviews and monitors IRRBB exposures against risk limits. ALCO regularly reviews the market activities and conditions and ensures that effective decision on managing IRRBB are taken and implemented in a timely manner.

The Bank uses a range of techniques to measure IRRBB from the earnings and economic perspectives. These includes the methodology set out in the Banking Return (MA(BS)12A). They are used to simulate the impact of various interest rate scenarios, including the scenario described in the template IRRBB1, on the Bank's NII and EVE. Through EVE measures, changes in the net present value of assets, liabilities and off-balance sheet items are computed, subject to specific interest rate shocks and stress scenarios. Through earning-based measures on NII, changes on future profitability within a 12-month period, that could eventually affect the Bank's future levels of earnings and equity capital, are assessed.

Limits are set based on the Bank's level of capital. The various simulation results are prepared, monitored and reported to the ALCO regularly. The key results are also reported to the RC and the Board on a quarterly basis. Any breach in limits or triggers is immediately reported by the monitoring unit to Treasury, CRO and/or the members of ALCO about the breach and the underlying reason(s). The Bank's Treasury actively monitors changes in market conditions, which may require balance sheet rebalancing. Stress testing is used to evaluate the potential impact of adverse scenarios on the IRRBB, including the debt securities portfolio.

(c) Risk measurement frequency

The EVE/NII measures in accordance with the regulatory scenarios are calculated and monitored on a regular basis. The Bank assesses the interest rate risk exposures based on EVE results from the standard regulatory scenarios.

(d) Interest rate shock and stress scenarios

The Bank measures its vulnerability to loss under stressed interest rate market conditions. The measurement of IRRBB for EVE/NII is based on standard regulatory interest rate shock scenarios.

(e) Hedging strategies and accounting treatment

All the hedge relationships of underlying hedged item(s)/risk and hedging transactions are documented and monitored if any.

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12 Interest rate risk in banking book (continued)

12.2 IRRBB1: Quantitative information on interest rate risk in banking book

The values in Template IRRBB1 below are computed in accordance with the HKMA Return MA(BS)12A (the “Return”). The six interest rate scenarios and currency shifts are defined in the HKMA’s SPM IR-1. At the bank level, the following impacts are assessed for each of the prescribed scenarios: (i) change in the economic value of equity (Δ EVE), using a constant balance sheet and an instantaneous shock; and (ii) the change in net interest income (Δ NII) over a forward-looking rolling 12-month period, using a constant balance sheet assumption and an instantaneous shock.

| (in HKD Million) | | (a) | (b) | (c) | (d) |
|------------------|-----------------------|--------------------|-------------|--------------------|-------------|
| | | Δ EVE | | Δ NII | |
| | Period | 31 Dec 2022 | 31 Dec 2021 | 31 Dec 2022 | 31 Dec 2021 |
| 1 | Parallel up | 35 | 15 | -2 | – |
| 2 | Parallel down | – | – | 2 | – |
| 3 | Steeper | – | – | | |
| 4 | Flattener | 10 | 7 | | |
| 5 | Short rate up | 21 | 12 | | |
| 6 | Short rate down | – | – | | |
| 7 | Maximum | 35 | 15 | 2 | – |
| | Period | 31 Dec 2022 | | 31 Dec 2021 | |
| 8 | Tier 1 capital | 402 | | 436 | |

Positive values indicate losses to the Bank whereas negative values indicate profit to the Bank.

As of 31 December 2022, the EVE worst scenario derived from the curve parallel up shift scenario (mainly +200 basis points for Hong Kong dollars) and remained well below the regulatory threshold corresponding to 15% of Tier 1 capital of the Bank (8.7% as of 31 December 2022). The maximum loss in projected net interest income is HK\$2 million under the “parallel down” scenario.

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13 International claims

International claims are on-balance sheet exposures of counterparties based on the location of those counterparties after taking into account the transfer of risk. Recognized risk transfer refers to the reduction of exposure to a particular country by an effective transfer of credit risk to a different country. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

International claims on individual countries or segments, after risk transfer, amounting to 10% or more of the aggregated international claims are shown as below:

| In HK\$'Million | At 31 December 2022 | | | Total |
|--|-------------------------|---------------------------------|------------------------------|------------|
| | Non-bank private sector | | | |
| | Banks | Non-bank financial institutions | Non-financial private sector | |
| Developed countries, of which | 88 | 18 | – | 106 |
| – Spain | 80 | – | – | 80 |
| – United States | 8 | 18 | – | 26 |
| Offshore centres | – | – | 19 | 19 |
| Developing Asia and Pacific, of which | 1 | – | – | 1 |
| – China | 1 | – | – | 1 |

14 Loans and advances to customers

14.1 Loans and advances to customers by geographical area

The analysis of the Bank's gross advances to customers by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies if the claim is guaranteed by a party in a country which is different from that of the counterparty.

| In HK\$'000 | At 31 December 2022 | | | | |
|--------------|---------------------------------------|--|---|---------------------|-----------------------|
| | (a) | (b) | (c) | (d) | (e) |
| | Gross loans and advances to customers | Impaired loans and advances to customers | Overdue loans and advances to customers for over three months | Specific provisions | Collective provisions |
| Hong Kong | 1,460,797 | 6,472 | 4,511 | 6,472 | 26,052 |
| Total | 1,460,797 | 6,472 | 4,511 | 6,472 | 26,052 |

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14 Loans and advances to customers (continued)

14.2 Loans and advances to customers by loan usage

The analysis of the Bank's gross loans and advances to customers by loan usage and the corresponding balances covered by collateral are as follows:

| In HK\$'000 | At 31 December 2022 | |
|--|---------------------|---|
| | Outstanding balance | % of gross advances covered by collateral |
| Loans and advances for use in Hong Kong | | |
| Financial Concerns | | |
| Investment companies | 18,000 | – |
| Individuals | | |
| Other private purpose | 1,442,797 | – |
| Gross loans and advances to customers | 1,460,797 | – |

15 Overdue and rescheduled assets

Gross loans and advances to customers which have been overdue with respect to either principal or interest:

| In HK\$'000 | At 31 December 2022 | |
|------------------------------------|---------------------|-------------------------------|
| | Outstanding balance | % of total loans and advances |
| Past due period | | |
| 6 months or less but over 3 months | 4,511 | 0.3% |
| 1 year or less but over 6 months | – | – |
| Over 1 year | – | – |

The rescheduled loans and advances to customers are as follows:

| In HK\$'000 | At 31 December 2022 | |
|---|---------------------|-------------------------------|
| | Outstanding balance | % of total loans and advances |
| Rescheduled loans and advances to customers | 847 | 0.1% |

16 Repossessed assets

The Bank does not hold any repossessed assets as of 31 December 2022.

WELAB BANK LIMITED**REGULATORY DISCLOSURE STATEMENT****17 Off-balance sheet exposures**

| In HK\$'000 | At 31 December 2022 |
|--|--------------------------------|
| Contractual or notional amounts | |
| Direct credit substitutes | – |
| Transaction-related contingencies | – |
| Trade-related contingencies | – |
| Forward asset purchases | – |
| Forward forward deposits placed | – |
| Other commitments: | |
| which are not unconditionally cancellable: | |
| with original maturity of not more than one year | – |
| with original maturity of more than one year | – |
| which are unconditionally cancellable | 93,937 |
| Total | 93,937 |
| Credit risk weighted amount | – |

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

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18 Mainland activities

The following illustrates the disclosure the Bank is required to make under the prevailing Return of Mainland Activities (MA(BS)20) in respect of its Non-bank Mainland China exposures.

| In HK\$'000 | | At 31 December 2022 | | |
|-------------|---|---------------------------|----------------------------|-------|
| | | (a) | (b) | (c) |
| | | On-balance sheet exposure | Off-balance sheet exposure | Total |
| 1 | Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs") | – | – | – |
| 2 | Local governments, local government-owned entities and their subsidiaries and JVs | – | – | – |
| 3 | PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs | – | – | – |
| 4 | Other entities of central government not reported in item 1 above | – | – | – |
| 5 | Other entities of local governments not reported in item 2 above | – | – | – |
| 6 | PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | – | – | – |
| 7 | Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures | – | – | – |
| 8 | Total | – | – | – |
| 9 | Total assets after provision | 2,688,754 | | |
| 10 | On-balance sheet exposures as percentage of total assets | 0% | | |

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19 Currency risk

The Bank is exposed to foreign currency exposures arising from non-trading and non-structural position which constitute 10% or more of the total net position in all foreign currencies are as follows, primarily United States dollar (“USD”).

| | At 31 December 2022 |
|---|------------------------|
| In HK\$'000 | (a) |
| US dollars exposures | |
| Spot assets | 23,635 |
| Spot liabilities | 360 |
| Forward purchases | – |
| Forward sales | – |
| Net long non-structural position | 23,275 |

There was no foreign currency structural positions and option positions as of 31 December 2022.

20 Remuneration

20.1 REMA: Remuneration Policy

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”). Four Remuneration Committee meeting were 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:

- Reinforce a business culture based on the highest ethical standards
- 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
- Reflect regulatory guidance in compensation program
- Attract and retain the best talent to lead the Bank to success
- Remunerate all staff members fairly and reasonably according to the individual level of competence and performance
- Performance evaluation is based on the balance of financial and non-financial factors including effective risk and people management
- Remuneration practices are set against comparable industry norms and to promote a “pay for performance” culture

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20 Remuneration (continued)

20.1 REMA: Remuneration Policy (continued)

Disclosure on Remuneration System (continued)

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, incentives 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.

Senior Management & Key Personnel

Senior Management

Chief Executive, Alternate Chief Executive, executive directors, and other senior executives with a role in the Bank's business who report directly to the Chief Executive, i.e. all Chief or Deputy Chief Officers, Head of Operation and Head of Internal Audit. This category of staff is defined as responsible for oversight of the Bank's strategy or activities or those of the Bank's material business lines.

Key Personnel

Selected managers as defined and reported under the HKMA's definition of "Managers" and staff whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf 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 be subject to deferral in the form of share options which will allow staff members' performance, including the associated risks, to be observed and validated over a period of time before part or all of the unvested share option is vested. This will enable the remuneration ultimately received by staff members to more accurately reflect risk and risk outcomes.

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

20 Remuneration (continued)

20.2 REM1: Remuneration awarded during financial year

| In HK\$'000 | | | (a) | (b) |
|--|---------------------------|--|-------------------|---------------|
| Remuneration amount and quantitative information | | | Senior management | Key personnel |
| 1 | Fixed remuneration | Number of employees | 8 | 3 |
| 2 | | Total fixed remuneration | 12,984 | 4,464 |
| 3 | | Of which: cash-based | 12,984 | 4,464 |
| 4 | | Of which: deferred | – | – |
| 5 | | Of which: shares or other share-linked instruments | – | – |
| 6 | | Of which: deferred | – | – |
| 7 | | Of which: other forms | – | – |
| 8 | | Of which: deferred | – | – |
| 9 | Variable remuneration | Total variable remuneration | 3,382 | 754 |
| 10 | | Of which: cash-based | 2,300 | 575 |
| 11 | | Of which: deferred | – | – |
| 12 | | Of which: shares or other share-linked instruments | 1,082 | 179 |
| 13 | | Of which: deferred | 1,082 | 179 |
| 14 | | Of which: other forms | – | – |
| 15 | | Of which: deferred | – | – |
| 16 | Total remuneration | | 16,366 | 5,218 |

20.3 REM2: Special payments

| In HK\$'000 | | (a) | (b) | (c) | (d) | (e) | (f) |
|------------------|-------------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| Special payments | | Guaranteed bonuses | | Sign-on awards | | Severance payments | |
| | | Number of employees | Total amount | Number of employees | Total amount | Number of employees | Total amount |
| 1 | Senior management | – | – | – | – | – | – |
| 2 | Key personnel | – | – | – | – | – | – |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

20 Remuneration (continued)

20.4 REM3: Deferred remuneration

| In HK\$'000 | | (a) | (b) | (c) | (d) | (e) |
|------------------------------------|--|---|---|---|---|---|
| Deferred and retained remuneration | | Total amount of outstanding deferred remuneration | Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment | Total amount of amendment during the year due to ex post explicit adjustments | Total amount of amendment during the year due to ex post implicit adjustments | Total amount of deferred remuneration paid out/vested in the financial year |
| 1 | Senior management | | | | | |
| 2 | Cash | – | – | – | – | – |
| 3 | Shares or other share-linked instruments | 7,883 | – | – | – | 4,823 |
| 4 | Cash-linked instruments | – | – | – | – | – |
| 5 | Other | – | – | – | – | – |
| 6 | Key personnel | – | – | – | – | – |
| 7 | Cash | – | – | – | – | – |
| 8 | Shares or other share-linked instruments | 1,695 | – | – | – | 1,266 |
| 9 | Cash-linked instruments | – | – | – | – | – |
| 10 | Other | – | – | – | – | – |
| 11 | Total | 9,578 | – | – | – | 6,089 |

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

21 Abbreviations

| Abbreviations | Brief Description |
|----------------------|--|
| AI | Authorized Institution |
| AT1 | Additional Tier 1 |
| BCR | Banking (Capital) Rules |
| BDR | Banking (Disclosure) Rules |
| BSC | Basic Approach |
| CAR | Capital Adequacy Ratio |
| CCF | Credit Conversion Factor |
| CCP | Central Counterparty |
| CCR | Counterparty Credit Risk |
| CCyB | Countercyclical Capital Buffer |
| CEM | Current Exposure Method |
| CET1 | Common Equity Tier 1 |
| CFR | Core Funding Ratio |
| CIS | Collective Investment Scheme |
| CRM | Credit Risk Mitigation |
| CVA | Credit Valuation Adjustment |
| DTAs | Deferred Tax Assets |
| D-SIBs | Domestic Systematically Important Authorized Institution |
| EAD | Exposure At Default |
| ECAI | External Credit Assessment Institutions |
| ECL | Expected Credit Loss |
| EL | Expected Loss |
| EPE | Expected Positive Exposure |
| FBA | Fall-Back Approach |
| FVOCI | Fair Value Through Other Comprehensive Income |
| G-SIBs | Global Systematically Important Authorized Institution |
| HKMA | Hong Kong Monetary Authority |
| HQLA | High Quality Liquid Assets |
| IAA | Internal Assessment Approach |
| IMM | Internal Models Approach |
| IMM (CCR) | Internal Models (Counterparty Credit Risk) Approach |
| IRB | Internal Ratings-Based Approach |
| J | Jurisdiction |
| JCCyB | Jurisdiction Countercyclical Capital Buffer |
| JVs | Joint Ventures |
| LAC | Loss-Absorbing Capacity |
| LCR | Liquidity Coverage Ratio |
| LMR | Liquidity Maintenance Ratio |
| LTA | Look Through Approach |

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REGULATORY DISCLOSURE STATEMENT

21 Abbreviations (continued)

| Abbreviations | Brief Description |
|----------------------|--|
| LR | Leverage Ratio |
| MA | Monetary Authority |
| MBA | Mandate-Based Approach |
| MSRs | Mortgage Servicing Rights |
| N/A | Not Applicable |
| NSFR | Net Stable Funding Ratio |
| OBS | Off-Balance Sheet |
| PFE | Potential Future Exposure |
| PRC | People's Republic of China |
| PSE | Public Sector Entity |
| RW | Risk-Weight |
| RWA | Risk-Weighted Asset/Risk-Weighted Amount |
| SA-CCR | Standardized Approach (Counterparty Credit Risk) |
| SEC-ERBA | Securitization External Ratings-Based Approach |
| SEC-FBA | Securitization Fall-Back Approach |
| SEC-IRBA | Securitization Internal Ratings-Based Approach |
| SEC-SA | Securitization Standardized Approach |
| SFT | Securities Financing Transaction |
| STC | Standardized (Credit Risk) Approach |
| STM | Standardized (Market Risk) Approach |
| VaR | Value at Risk |