Directors' Report and Financial Statements

For the year ended 31 December 2022

Mox Bank Limited

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Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2022.

Principal place of business

Mox Bank Limited (formerly SC Digital Solutions Limited) (referred to as "Mox" or the "Bank") is a bank incorporated and domiciled in Hong Kong and has its registered office at and principal place of business at 39/F, Oxford House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

Principal activity and business review

Mox Bank Limited is the virtual bank majority owned by Standard Chartered Bank (Hong Kong) Limited in partnership with PCCW Limited, HKT Limited and CTrip Financial Management (Hong Kong) Co. Mox is a licensed bank registered under the Hong Kong Banking Ordinance. The Bank's principal activities are the provision of banking and related financial services in Hong Kong, focusing on serving the banking needs of individual retail customers.

Mox was among the first to be granted a virtual banking license by the Hong Kong Monetary Authority ("HKMA") in March 2019 and was officially launched in September 2020.

For the year ended 31 December 2022, loss before taxation was HK$631 million, which decreased by HK$56 million from HK$687 million for 2021 as Mox continues growing its customer base, at the same time investing in technology and people for building the Bank's product and services. The capital adequacy ratio as at 31 December 2022 was maintained at 19.16% which is above regulatory minimal.

As at 31 December 2022, Mox had over 400,000 customers, over HK$8 billion in customer deposits and over HK$5 billion in customer loans. Mox was the highest rated virtual bank in Hong Kong on the Apple App Store with a rating of 4.8 out of 5 as of 31 December 2022, representing continued positive customer feedback and support. Mox was also rated the most recommended virtual bank in Hong Kong based on a YouGov survey. Overall, Mox received more than 50 awards and recognitions from institutions all around the world ever since the bank launch.

In 2022, Mox had a strong focus on expanding its card and digital lending services and recorded a strong performance and an engaged customer base. It is one of the first virtual banks in the market where customers can open an account and credit card in less than 5 minutes. Mox customers had on average 3.1x products. The Bank received very strong and positive customer feedback with a strong Net Promoter Score and is the best-in-class in Hong Kong. During the year, the Bank launched "**Instant Clear**", a service that allows its Mox Credit customers to draw a loan from their Mox Credit balances to repay their outstanding credit card balances with other banks or financial institutions. A new service, first from a Hong Kong virtual bank, was also launched to allow Mox Credit customers to do **Instant money transfer with their credit line**. Other major services launched also include the mid-market rate for foreign exchange available for a total of eight currencies, namely, AUD, CAD, EUR, GBP, JPY, NZD, SGD and USD.

Principal risks and uncertainties facing the Bank include potential intense competition from existing traditional banks and new virtual banking entrants, as well as current uncertainties in the external environment, and the consequential impact on consumer sentiment and the overall economy.

Principal activity and business review (continued)

Mox will continue to work with partners and suppliers to bring more innovative services, including wealth management services, to customers efficiently and sustainably and win the hearts and trust of customers. The bank will also continue to strive for environmental sustainability by offering updates and information which is paperless via the mobile app to our customers and promote an environmentally friendly culture to our employees. The bank also believes great employee experience drives great client experience and support our people to pursue their ambitions, deliver with purpose and have a rewarding career enabled by great people leaders.

Financial statements

The financial results of the Bank for the year ended 31 December 2022 and the state of the Bank's affairs as at that date are set out in the financial statements on pages 7 to 65.

Recommended dividend

The directors do not recommend any payment of dividend in respect of the year (2021: nil).

Share capital

Details of movements in share capital of the Bank are set out in note 23(b) to the financial statements.

Directors

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

Barbaros UYGUN	
Mary Wai Yi HUEN	
Samir SUBBERWAL	
Michael Andres GORRIZ	
Allen Kam Sing MA*	
Jeny Mei-Chun YEUNG*	(resigned on 30 September 2022)
Susanna Hon-Hing HUI	
Yan FENG	
Frank Yee Chon LYN*	
Tsz Kiu Jason Felix CHU*	(appointed on 29 September 2022)

** Independent non-executive directors*

There being no provision in the Bank's articles of association in connection with the rotation of directors, all existing directors continue in office for the following year.

Directors' service contracts

The term of service contracts of independent non-executive directors, Allen Kam Sing MA, Frank Yee Chon LYN, Jeny Mei-Chun YEUNG and Tsz Kiu Jason Felix CHU, ranges between one to three years. Their remuneration was approved by the shareholders.

Directors' interests in shares and debentures

Certain directors of the Bank have been granted options under various share option schemes of Standard Chartered PLC, the ultimate holding company of the Bank. During the year, Mary Wai Yi HUEN, Samir SUBBERWAL and Michael Andres GORRIZ held options under these schemes.

Directors' interests in shares and debentures (continued)

Under the Cash-settled Share Option plan approved by the Board in April 2020, Barbaros UYGUN has been granted share awards under the scheme. Further details on the share award are described in Note 28 to the financial statements.

Except the above, at no time during the year was the Bank, any of its holding companies, or fellow subsidiaries, a party to any other arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Directors' interests in transactions, arrangements or contracts

No contract of significance to which the Bank, or a specified undertaking of the Bank was a party, and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

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

Subsequent event

Details of the Bank's significant events after the reporting period are set out in note 30 to the financial statements.

Indemnity of directors

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

Auditor

These financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

Mary Wai Yi HUEN
Chair

Hong Kong, 27 March 2023

EY 安永

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Independent auditor's report
To the members of Mox Bank Limited
(Incorporated in Hong Kong with limited liability)

Opinion
We have audited the financial statements of Mox Bank Limited (the "Bank") set out on pages 7 to 65, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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

Information other than the financial statements and auditor's report thereon
The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Financial Statements, other than the financial statements and our auditor's report thereon.

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

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

EY 安永

Independent auditor's report (continued)
To the members of Mox Bank Limited
(Incorporated in Hong Kong with limited liability)

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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

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

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

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

Independent auditor's report (continued)
To the members of Mox Bank Limited
(Incorporated in Hong Kong with limited liability)

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2023

Statement of profit or loss and other comprehensive income for the year ended 31 December 2022

(Expressed in thousands of Hong Kong dollars)

	Note	2022 HK$'000	2021 HK$'000
Interest income	5	169,460	19,185
Interest expense	6	(55,091)	(37,048)
Net interest income/(expense)		114,369	(17,863)
Net fee income	7	51,551	8,545
Net trading income	8	5,263	1,710
Net losses on derecognition of financial assets measured at fair value through other comprehensive income		(1,031)	(139)
Total operating income/(loss)		170,152	(7,747)
Staff costs	9(a)	(231,452)	(234,610)
Premises and equipment	9(b)	(122,265)	(101,728)
Others	9(c)	(340,540)	(320,240)
Operating expenses	9	(694,257)	(656,578)
Operating loss before credit impairment		(524,105)	(664,325)
Credit impairment	10	(107,255)	(23,089)
Loss before taxation		(631,360)	(687,414)
Income tax	11	–	–
Loss after taxation		(631,360)	(687,414)
Other Comprehensive income			
Items that may be reclassified subsequently to profit or loss when specific conditions are met:			
Financial assets at fair value through other comprehensive income ("FVOCI")			
– changes in the fair value, net of tax		(1,971)	(1,950)
– Reclassification adjustments for losses included in profit or loss		1,031	139
Loss and total comprehensive income for the year		(632,300)	(689,225)

The notes on pages 12 to 65 form part of these financial statements.

Statement of financial position at 31 December 2022

(Expressed in thousands Hong Kong dollars)

	Note	2022 HK$'000	2021 HK$'000
Assets			
Balances with central bank	13	1,072,448	419,686
Investment securities	14	2,877,424	2,943,148
Advances to customers	15	4,957,342	694,605
Amount due from immediate holding company	16	795,856	2,180,788
Amount due from fellow subsidiary	16	178	80
Amounts due from related companies	16	90,234	1,550
Intangible assets	17	477,381	461,179
Property and equipment	18	54,742	24,275
Prepayments and other assets	19	88,241	37,466
		10,413,846	6,762,777
Liabilities			
Deposits from customers	20	8,365,260	5,374,684
Amount due to immediate holding company	16	346,207	134,687
Amount due to fellow subsidiary	16	2,260	328
Amounts due to related companies	16	15,103	5,944
Other payables	21	302,422	201,920
		9,031,252	5,717,563
NET ASSETS		1,382,594	1,045,214
CAPITAL AND RESERVES			
Share capital	23	3,519,000	2,549,320
Reserves	23	(2,136,406)	(1,504,106)
Total equity		1,382,594	1,045,214

Approved and authorised for issue by the board of directors on 27 March 2023.

Mary Wai Yi HUEN
Director

Barbaros UYGUN
Director

The notes on pages 12 to 65 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2022

(Expressed in thousands Hong Kong dollars)

	Note	*Share capital HK$'000*	*Retained loss HK$'000*	*FVOCI Reserves HK$'000*	*Total HK$'000*
Balance at 1 January 2021		2,080,120	(814,881)	–	1,265,239
Changes in equity for 2021:					
Shares issued	23(b)	469,200	–	–	469,200
Total comprehensive income for the year		–	(687,414)	(1,811)	(689,225)
Balance at 31 December 2021		2,549,320	(1,502,295)	(1,811)	1,045,214
Changes in equity for 2022:					
Shares issued	23(b)	969,680	–	–	969,680
Total comprehensive income for the year		–	(631,360)	(940)	(632,300)
Balance at 31 December 2022		3,519,000	(2,133,655)	(2,751)	1,382,594

The notes on pages 12 to 65 form part of these financial statements.

Cash flow statement
for the year ended 31 December 2022

(Expressed in thousands Hong Kong dollars)

	Note	2022 HK$'000	2021 HK$'000
Operating activities			
Loss before taxation		(631,360)	(687,414)
Adjustment for:			
Depreciation on property and equipment	18	19,010	19,467
Amortisation on intangible assets	17	99,001	79,072
Leased property finance costs		648	974
Credit impairment	10	107,255	23,089
		(405,446)	(564,812)
Net (increase)/decrease in operating assets:			
Gross advances to customers		(4,360,531)	(710,074)
Investment securities		804,783	(2,944,959)
Amount due from immediate holding company		191,904	(799,830)
Amount due from fellow subsidiary		(98)	(80)
Amounts due from related companies		(10,484)	(1,550)
Prepayments and other assets		(50,774)	(10,416)
Net increase/(decrease) in operating liabilities:			
Deposits from customers		2,990,576	180,991
Amount due to immediate holding company		211,520	22,453
Amount due to fellow subsidiary		1,932	(249)
Amounts due to related companies		9,159	(4,625)
Other payables		61,595	34,463
Cash used in operations		(555,864)	(4,798,688)
Tax paid		–	–
Net cash used in operating activities		(555,864)	(4,798,688)
Investing activities			
Payment for purchase of property and equipment	18	(3,448)	(1,238)
Proceeds from disposal of computer equipment		–	389
Payment for purchase of intangible assets	17	(115,203)	(116,415)
Net cash used in investing activities		(118,651)	(117,264)

The notes on pages 12 to 65 form part of these financial statements.

Cash flow statement
for the year ended 31 December 2022 (continued)

(Expressed in thousands Hong Kong dollars)

	Note	*2022 HK$'000*	*2021 HK$'000*
Financing activities			
Cash proceeds from issuing shares	23(b)	891,480	469,200
Principal portion of lease payments		(14,280)	(13,955)
Interest element on lease liabilities		(648)	(974)
Net cash from financing activities		876,552	454,271
Net increase/(decrease) in cash and cash equivalents		202,037	(4,461,681)
Cash and cash equivalent at 1 January		1,799,737	6,261,260
Effect of foreign exchange		(2,303)	158
Cash and cash equivalents at 31 December	24	1,999,471	1,799,737
Cash flows from operating activities include:			
Interest received		169,030	17,888
Interest paid		(39,221)	(37,048)

The notes on pages 12 to 65 form part of these financial statements.

Notes to the financial statements

(Expressed in thousands Hong Kong dollars)

1 Principal activities

Mox Bank Limited (the "Bank") is a licensed virtual bank registered under the Hong Kong Banking Ordinance. The principal activities of the Bank are the provision of banking and related financial services.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Bank are disclosed below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis as modified by the revaluation of financial assets and liabilities at fair value through other comprehensive income. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousands unless otherwise indicated.

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover or settle the majority of assets or liabilities (respectively) of the corresponding financial statement line item.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRS that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

2 Significant accounting policies (continued)

(c) Financial Instruments

Classification and measurement of financial instruments

Classification

The Bank classifies its financial assets into the following measurement categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. Financial liabilities are classified as either amortised cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

(1) Financial assets held at amortised cost and fair value through other comprehensive income ("FVOCI")

Debt instruments held at amortised cost or held at FVOCI have contractual terms that give rise to cash flows that are solely payments of principal and interest ("SPPI characteristics"). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify the consideration of the time value of money (e.g. periodical reset of interest rates).

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Bank manages financial assets to generate cash flows.

2 Significant accounting policies (continued)

(c) Financial Instruments (continued)

<u>**Classification**</u> **(continued)**

(1) Financial assets held at amortised cost and fair value through other comprehensive income ("FVOCI") (continued)

The Bank makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- how the performance of the product business line is evaluated and reported to the Bank's management;

- how managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;

- the risks that affect the performance of the business model and how those risks are managed;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

Both hold to collect and hold to collect and sell business models involve holding financial assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be both infrequent and insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model in contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Bank's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

2 Significant accounting policies (continued)

(c) Financial Instruments (continued)

Classification (continued)

(2) Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified as fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

The Bank does not currently classify any financial assets and liabilities at fair value through profit or loss.

(3) Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

The Bank issued a financial guarantee to its immediate holding company in view of collateralised staff housing mortgage loans issued by its immediate holding company to the Bank's employees as part of staff benefit programme. The financial guarantee is recorded off balance sheet as direct credit substitute.

The Bank issued loan commitments as part of its credit card product offering to customers. The undrawn portion of the credit card facilities are unconditionally cancellable commitments to provide credit under prespecified terms and conditions, and are recorded off balance sheet.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Bank has access at that date. The fair value of a liability includes the risk that the Bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Bank establishes fair value by using valuation techniques.

2 Significant accounting policies (continued)

(c) Financial Instruments (continued)

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade-date (the date on which the Bank commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers). Financial liabilities, which include borrowings, not classified as held at fair value through profit or loss are classified at amortised cost on settlement date.

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets and financial liabilities which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss but is amortised or released to profit or loss as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

(1) Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in profit or loss.

(2) Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in profit or loss. Changes in expected credit losses are recognised in profit or loss and are accumulated in a separate component of equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss in reserve, are transferred to profit or loss.

2 Significant accounting policies (continued)

(c) Financial Instruments (continued)

Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expired and this is evaluated both qualitatively and quantitatively.

(d) Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk. At initial recognition, allowance is required for expected credit loss resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, allowance is required for expected credit loss from all possible default events over the expected life of the financial instrument. For financial assets that are credit-impaired at the reporting date, the Bank measures the expected credit loss as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

(e) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and impairment losses.

Research costs are expensed as incurred. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate the technical feasibility of completing the development so that it will be available for use or sale, its intention to complete the development and use or sell it, its ability to use or sell the development, the development will generate probable future economic benefits and its ability to measure the expenditure attributable to the development reliability. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment losses.

2 Significant accounting policies (continued)

(e) Intangible assets (continued)

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Capitalised software	3 to 7 years
– Other intangible assets	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

(f) Property and equipment

The property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

– Leasehold improvements	3 - 5 years
– Office equipment	3 - 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 Significant accounting policies (continued)

(f) Property and equipment (continued)

The carrying amounts of property and equipment are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The recoverable amount of an asset, or of the cash generating unit to which it belongs, is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(g) Impairment of non-financial assets

The carrying amounts of non-financial assets (such as intangible assets) are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in profit or loss if the carrying amount of an intangible asset exceeds its recoverable amount. The recoverable amount of an intangible asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the intangible assets. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(h) Leased assets

At inception of a contract, the Bank assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

At the lease commencement date, the Bank recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Bank enters into a lease in respect of a low-value asset, the Bank decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

2 Significant accounting policies (continued)

(h) Leased assets (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using the relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(g)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Bank will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank's lease liability is included in "Other payables" in note 21.

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with central bank, investment securities, cash held at and deposits with an immediate holding company, having been within three months of maturity at acquisition.

(j) Revenue recognition

(i) Net interest income and other gains or losses arising from financial instruments

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

2 Significant accounting policies (continued)

(j) Revenue recognition (continued)

(i) Net interest income and other gains or losses arising from financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider expected credit losses. The calculation of effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability and all other premiums or discounts.

Interest income for financial assets that are either held at FVOCI or amortised cost that have become credit impaired subsequent to initial recognition (stage 3) is recognised using the original effective interest rate applied to the net carrying value. Interest income is therefore recognised on the amortised cost of the financial asset including expected credit losses. Should the credit risk on a stage 3 financial asset improve such that the financial asset is no longer considered credit impaired, interest income recognition reverts to a computation based on the gross carrying value of the financial asset.

Interest income and expense on financial instruments held at fair value through profit or loss is recognised within net trading income.

Gains and losses arising from changes in the fair value of financial assets and liabilities held at fair value through profit or loss, as well as any interest receivable or payable, are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of financial assets held at fair value through other comprehensive income other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss, except for the investments in equity instruments irrevocably designated at fair value through other comprehensive income.

(ii) Fees and commissions

The Bank earns fee and commission income from customer card processing services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not include multiple performance obligations.

2 Significant accounting policies (continued)

(j) Revenue recognition (continued)

(ii) Fees and commissions (continued)

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Interchange fee
The Bank provides its customers with card processing services (i.e., authorisation and settlement of transactions executed with the Bank's cards) where it is entitled to an interchange fee for each transaction (i.e., when a cardholder purchases goods and services from merchants using the Bank's card). The fees vary based on the number of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed percentage of the underlying cardholder transaction. The variable interchange fees are allocated to each distinct day, based on the number and value of transactions processed that day, and the allocated revenue is recognised as the entity performs.

Interchange fee income is netted off with costs incurred on cash-back rewards scheme and presented within fee and commission income line in note 7.

Provision of consultancy services
Fee income from provision of consultancy services is recognised over scheduled period on a straight-line basis as customer simultaneously receives and consumes the benefits provided by the Bank.

(k) Income tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

2 Significant accounting policies (continued)

(k) Income tax (continued)

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

(l) Provisions

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

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

(m) Employee benefits

(i) Short term employee

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

(ii) Share-based compensation

The Bank's ultimate holding company, Standard Chartered PLC operates equity-settled share-based compensation plans in which some of the Bank's employees participate. The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense with the corresponding amount credited to amounts due to an immediate holding company.

(ii) Share-based compensation (continued)

In addition, the Bank operates cash-settled share-based compensation plan, namely, Cash-settled Share Option, which are in reference to the Bank's share price. The cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in profit or loss until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors such as failure to satisfy service conditions, the cumulative charge incurred up to the date of forfeiture is credited to profit or loss.

2 Significant accounting policies (continued)

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Bank initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(o) Related parties

(a) A person, or a close member of that person's family, is related to the Bank if that person:

- (i) has control or joint control over the Bank;
- (ii) has significant influence over the Bank; or
- (iii) is a member of the key management personnel of the Bank or the Bank's parent.

(b) An entity is related to the Bank if any of the following conditions applies:

- (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the Bank's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Significant accounting policies (continued)

(p) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

During the years 2022 and 2021, the Bank received government grant under the Financial Industry Recruitment Scheme for Tomorrow (FIRST) scheme and Hong Kong Employment Support Scheme respectively. The amounts are presented within 'staff costs'.

(q) Costs incurred in obtaining or fulfilling a contract

The Bank capitalises incremental costs of obtaining customer contract that are expected to be recoverable in accordance with HKFRS 15 Revenue from Contracts with Customers. Carrying value of capitalized contract costs net of amortization is included in note 19.

Amortisation of capitalised contract costs is charged to profit or loss on a systematic basis that is consistent with the transfer of services to which the asset relates, which typically ranges over the expected life of the relationship.

3 Changes in accounting policies

The Bank has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these financial statements.

The following revised accounting standards became effective from 1 January 2022. None of the revised accounting standards have a material impact on the financial statements.

Amendments to HKFRS 3	Reference to Conceptual Framework
Amendments to HKAS 16	Property Plant and Equipment – Proceeds before intended Use
Amendments to HKAS 37	Onerous Contracts – Costs of Fulfilling a Contract
HKFRS 9 Financial Instruments	Fees in the "10 per cent" test for derecognition of financial liabilities

4 Significant accounting judgements and estimates

In determining the carrying amounts of certain assets and liabilities, the Bank makes assumptions about the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimations and assumptions are based on historical experience and expectation of future events and are reviewed periodically as actual results may differ from these estimates.

4 Significant accounting judgements and estimates (continued)

Impairment of financial assets

The calculation of expected credit loss provision for financial assets are based on assumptions about probability of default and expected loss rates. The Bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 26(a).

Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax liabilities are recognised on all temporary differences and deferred tax assets are recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

Capitalisation criteria on capitalised software and work-in-progress

Capitalised software and work-in-progress are intangible assets developed in-house. Management exercises judgement in determining whether costs associated with the development of software meet the criteria to be capitalised as intangible assets in accordance with applicable accounting framework. Management also exercises judgment in determining the proportion of internal costs that are directly attributable to the development of intangible assets.

Impairment of capitalised software and work-in-progress

Intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an impairment is required, the recoverable amount is determined based on value-in-use calculations prepared using management's assumptions and estimates.

Amortisation of capitalised software

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

Cash-settled share option plan

The liablity related to cash-settled share option plan is measured by reference to the fair value of share price valuation of the Bank at the date they are granted and at each financial year end. Judgement is applied in determining the most appropriate valuation model and in determining the inputs to the model. Independent external valuation experts are engaged to advise on the fair value calculation.

4 Significant accounting judgements and estimates (continued)

Capitalisation criteria, amortisation and impairment on costs incurred in obtaining or fulfilling a contract

In the assessment of capitalisation of incremental costs of obtaining a contract, management exercises judgement in identifying incremental costs which the Bank expects to recover. Management also exercises judgment in determining the amortisation period as the asset may relate to services to be transferred under anticipated contracts.

Capitalised contract costs are reviewed for impairment, and management applies assumptions and estimates to determine if the carrying amount exceeds the amount of consideration that the Bank expects to receive in exchange for providing services to which the asset relates, less the costs that relate directly to providing those services and that have not been recognised as expenses.

5 Interest income

	2022 *HK$'000*	*2021* *HK$'000*
Interest income arising from financial assets at amortised cost	145,729	18,911
Interest income arising from financial assets at fair value through other comprehensive income	23,731	274
	169,460	19,185

Interest income received on placements made with immediate holding company amounted to HK$13,217,000 (2021: HK$11,338,000).

6 Interest expense

	2022 *HK$'000*	*2021* *HK$'000*
Interest expense arising from financial liabilities at amortised cost	54,443	36,074
Interest expense arising from lease liabilities	648	974
	55,091	37,048

Interest expense paid on money market borrowing placed made with immediate holding company amounted to HK$2,411,000 (2021: HK$ nil).

7 Net fee income

	2022 HK$'000	2021 HK$'000
Fee and commission income		
– Services transferred at a point in time	55,149	12,371
– Services transferred over time	17,899	4,451
Fee and commission expense	(21,497)	(8,277)
	51,551	8,545

Included amortisation of capitalised contract costs amounted to HK$7,174,000 (2021: HK$ nil).

8 Net trading income

	2022 HK$'000	2021 HK$'000
Foreign exchange gains	5,263	1,710

9 Operating expenses

(a) Staff costs

	2022 HK$'000	2021 HK$'000
Salaries, wages and other benefits	206,766	210,472
Share based payments (see note 28)	4,807	1,712
Retirement benefits	10,403	10,788
Other staff costs	9,476	11,638
	231,452	234,610

(b) Premises and equipment

	2022 HK$'000	2021 HK$'000
Amortisation of capitalised software	98,401	78,472
Depreciation charge on right-of-use operating lease asset	13,006	13,272
Depreciation of computer equipment, furniture and fittings	6,004	6,195
Other premises and equipment costs	4,854	3,789
	122,265	101,728

9 Operating expenses (continued)

(c) Other items

	2022 HK$'000	2021 HK$'000
Service fee paid to an immediate holding company (note 27(d))	11,758	15,114
Auditors' remuneration	2,465	2,100
Amortisation of other intangible assets	600	600
Professional fees	118,954	117,507
Computer costs	126,677	93,940
Marketing costs	62,220	73,596
Other expenses	17,866	17,383
	340,540	320,240

Included amortisation of capitalised contract costs amounted to HK$1,233,000 (2021: HK$nil).

10 Credit impairment

	2022 HK$'000	2021 HK$'000
Credit impairment on advances to customers, analysed by:		
– Stage 1	57,629	2,800
– Stage 2	4,168	11,881
– Stage 3	35,997	1,507
Credit impairment relating to loan commitments	9,461	6,901
	107,255	23,089

11 Income tax in profit or loss

(a) Taxation in profit or loss represents:

	2022 HK$'000	2021 HK$'000
Current taxation – Hong Kong profits tax		
Provision for the year	–	–
Deferred tax		
Origination and reversal of temporary differences	–	–
	–	–

11 Income tax in profit or loss (continued)

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

	2022 *HK$'000*	*2021* *HK$'000*
Loss before taxation	(631,360)	(687,414)
Notional tax on loss before taxation calculated at a taxation rate of 16.5% (2021: 16.5%)	(104,174)	(113,423)
Tax effect of non-taxable income	(4,312)	(162)
Tax effect of temporary difference not recognised	12,068	3,851
Tax effect of non-deductible expenses	278	198
Tax effect of unused tax losses not recognised	96,140	109,536
Taxation	–	–

In 2022, the Bank did not recognise deferred tax assets in respect of cumulative tax losses of HK$2,027,231,326 (2021: HK$1,444,561,668) and deductible temporary differences of HK$106,332,065 (2021: HK$32,399,026). There is uncertainty on the timing upon which the tax losses can be utilised in the relevant tax jurisdiction. The tax losses do not expire under current tax legislation. No provision has been made for Hong Kong Profits Tax as the Bank has no assessable profits subject to Hong Kong Profits Tax.

12 Directors' emoluments

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

	2022 *HK$'000*	*2021* *HK$'000*
Directors' fees	1,953	1,500
Salaries, allowances and benefits in kind	4,969	4,505
Discretionary bonuses	2,412	2,295
Retirement scheme contributions	380	76
Share based payment	902	(345)
	10,616	8,031

Pursuant to section 383(1)(a) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, certain directors of the Bank are not paid directly by the Bank but receive remuneration from the Bank's immediate holding company or related parties, in respect of their services to the relevant larger group which includes the Bank. No apportionment has been made as the qualifying services provided by these directors to the Bank are incidental to their responsibilities to the relevant larger group.

13 Balances with central bank

	2022 HK$'000	2021 HK$'000
Balances with central bank in Hong Kong	1,072,448	419,686

14 Investment securities

	2022 HK$'000	2021 HK$'000
At fair value through other comprehensive income:		
Treasury bills	2,877,424	2,943,148

As at 31 December 2022 and 31 December 2021, there were no investment securities that is impaired, overdue or rescheduled.

15 Advances to customers

	2022 HK$'000	2021 HK$'000
Gross advances to customers	5,044,154	710,196
Less: Credit impairment, analysed by:		
– Stage 1	(60,439)	(2,810)
– Stage 2	(16,049)	(11,881)
– Stage 3	(10,324)	(900)
	4,957,342	694,605

16 Amounts due from/to immediate holding company, fellow subsidiary and related companies

The amounts due from immediate holding company represent cash at bank and time deposit placed with immediate holding company. Cash at bank are non-interest bearing, whilst time deposits are interest bearing between 1.79% to 3.79% (2021: 0.01% to 0.45%), with contractual maturities of one year (2021: one month). These balances are unsecured.

The amounts due to immediate holding company represent money market borrowing received from, and other liabilities owing to immediate holding company. Money market borrowing are interest bearing between 3.75% to 3.78% (2021: nil), with contractual maturities of four months (2021: nil). Other liabilities owing to immediate holding company are unsecured, non-interest bearing and expected to be settled within one year.

The amounts due to/from a fellow subsidiary are unsecured, non-interest bearing and expected to be settled within one year.

The amounts due to/from related companies are unsecured, non-interest bearing and expected to be settled within one year.

17 Intangible assets

	2022			
	*Capitalised software** *HK$'000*	*Work in Progress** *HK$'000*	*Other intangible assets*** *HK$'000*	*Total* *HK$'000*
Cost				
At 1 January 2022	541,443	10,162	9,822	561,427
Additions	89,544	25,659	–	115,203
Reclassification	–	–	–	–
At 31 December 2022	630,987	35,821	9,822	676,630
Accumulated depreciation				
At 1 January 2022	98,998	–	1,250	100,248
Charge for the year	98,401	–	600	99,001
At 31 December 2022	197,399	–	1,850	199,249
Net book value				
At 31 December 2022	433,588	35,821	7,972	477,381

	2021			
	*Capitalised software** *HK$'000*	*Work in Progress** *HK$'000*	*Other intangible assets*** *HK$'000*	*Total* *HK$'000*
Cost				
At 1 January 2021	382,062	53,128	9,822	445,012
Additions	85,861	30,554	–	116,415
Reclassification	73,520	(73,520)	–	–
At 31 December 2021	541,443	10,162	9,822	561,427
Accumulated depreciation				
At 1 January 2021	20,526	–	650	21,176
Charge for the year	78,472	–	600	79,072
At 31 December 2021	98,998	–	1,250	100,248
Net book value				
At 31 December 2021	442,445	10,162	8,572	461,179

* Capitalised software and Work in Progress are internally developed software.

** Other intangible assets consist of costs incurred on patents, trademarks and membership amounting to HK$9,822,182 (2021: HK$9,822,182). Amount of intangible assets with indefinite useful life comprise HK$6,822,182 (2021: HK$6,822,182).

18 Property and equipment

	2022			
	Right-of-use operating lease property HK$'000	*Leasehold improvement HK$'000*	*Office equipment HK$'000*	*Total HK$'000*
Cost				
At 1 January 2022	39,817	6,500	12,401	58,718
Additions	46,029	2,115	1,333	49,477
Disposal	–	–	–	–
At 31 December 2022	85,846	8,615	13,734	108,195
Accumulated depreciation				
At 1 January 2022	23,226	3,431	7,786	34,443
Charge for the year	13,006	2,166	3,838	19,010
Disposal	–	–	–	–
At 31 December 2022	36,232	5,597	11,624	53,453
Net book value				
At 31 December 2022	49,614	3,018	2,110	54,742

	2021			
	Right-of-use operating lease property HK$'000	*Leasehold improvement HK$'000*	*Office equipment HK$'000*	*Total HK$'000*
Cost				
At 1 January 2021	39,817	6,500	11,642	57,959
Additions	–	–	1,238	1,238
Disposal	–	–	(479)	(479)
At 31 December 2021	39,817	6,500	12,401	58,718
Accumulated depreciation				
At 1 January 2021	9,954	1,264	3,848	15,066
Charge for the year	13,272	2,167	4,028	19,467
Disposal	–	–	(90)	(90)
At 31 December 2021	23,226	3,431	7,786	34,443
Net book value				
At 31 December 2021	16,591	3,069	4,615	24,275

19 Prepayments and other assets

	2022 HK$'000	2021 HK$'000
Capitalised contract costs	63,280	–
Prepaid expenses	17,740	21,041
Sundry debtors	17	9,196
Deposits	4,229	4,229
Other receivables	2,975	3,000
	88,241	37,466

As of end of years 2022 and 2021, there were no receivables that is impaired, overdue or rescheduled.

20 Deposits from customers

	2022 HK$'000	2021 HK$'000
Savings accounts	8,365,249	5,374,684
Time deposits	11	–
	8,365,260	5,374,684

21 Other payables

	2022 HK$'000	2021 HK$'000
Cash-settled share-based payments	7,482	4,851
Property lease liabilities	49,985	18,236
Receipts in advance	22,614	19,690
Expected credit loss provision on loan commitments	16,362	6,901
Accruals of expenses (Note)	135,941	133,560
Other liabilities (Note)	70,038	18,682
	302,422	201,920

Note:
These amounts as of end of years 2022 and 2021 are unsecured, non-interest bearing and expected to be settled within one year or are repayable on demand.

22 Income tax in the statement of financial position

Deferred tax assets and liabilities recognised:

The components of gross deferred tax assets/(liabilities) recognised in the statement of financial position and the movement during the year are as follows:

	2022			
	Amortisation of capitalised intangibles HK$'000	*Unutilised tax losses HK$'000*	*Others HK$'000*	*Total HK$'000*
At 1 January 2022	(74,680)	75,703	(1,023)	–
(Charge)/credit to profit or loss	(2,772)	2,167	605	–
At 31 December 2022	(77,452)	77,870	(418)	–

	2021			
	Amortisation of capitalised intangibles HK$'000	*Unutilised tax losses HK$'000*	*Others HK$'000*	*Total HK$'000*
At 1 January 2021	(68,420)	69,880	(1,460)	–
(Charge)/credit to profit or loss	(6,260)	5,823	437	–
At 31 December 2021	(74,680)	75,703	(1,023)	–

	2022 HK$'000	*2021 HK$'000*
Net deferred tax assets and liabilities recognised in the statement of financial position	–	–

23 Capital and reserves

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

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

FVOCI Reserves

FVOCI Reserves comprise the cumulative net change in the fair value of the investment in treasury bills measured at fair value through other comprehensive income. The reserve is dealt with in accordance with accounting policy in note 2(c).

(b) Issued share capital

	2022		*2021*	
	No. of shares	*HK$'000*	*No. of shares*	*HK$'000*
Ordinary shares, issued and called:				
At 1 January	254,932,000	2,549,320	208,012,000	2,080,120
Shares issued and fully paid	89,148,000	891,480	46,920,000	469,200
Shares issued and unpaid	7,820,000	78,200	–	–
At 31 December	351,900,000	3,519,000	254,932,000	2,549,320

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

(c) Capital management

The Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. As the Bank is part of a larger group, the Bank's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The Bank defines "capital" as including all components of equity less unaccrued proposed dividends.

The Bank's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the Bank belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Bank or the group, to the extent that these do not conflict with the directors' fiduciary duties towards the Bank or the requirements of the Hong Kong Companies Ordinance. The results of the directors' review of the Bank's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared.

The Bank calculates its capital adequacy ratios in accordance with the Banking (Capital) Rules and has complied with externally imposed capital requirements at all times in years 2022 and 2021.

24 Cash and cash equivalents

(a) Components of cash and cash equivalent in the cash flow statements

	2022 HK$'000	2021 HK$'000
Balances with central bank	1,072,448	419,686
Investment securities	740,000	–
Cash held at immediate holding company	187,023	230,051
Placements with immediate holding company with original maturity less than three months	–	1,150,000
Cash and cash equivalents in the cash flow statement	1,999,471	1,799,737

(b) Reconciliation with the statement of financial position

	2022 HK$'000	2021 HK$'000
Balances with central bank	1,072,448	419,686
Investment securities	2,877,424	–
Amount due from immediate holding company	795,856	2,180,788
Amount shown in the statement of financial position	4,745,728	2,600,474
Less: Investment securities with original maturities beyond three months	(2,159,500)	–
Less: unamortised discount or premium and fair value portion included in "Investment Securities"	22,076	–
Less: amounts with original maturities beyond three months	(600,000)	(800,000)
Less: accrued interest receivables included in "Amount due from immediate holding company"	(8,833)	(652)
Less: other receivables included in "Amount due from immediate holding company"	–	(85)
	1,999,471	1,799,737

24 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities

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

	Lease liabilities HK$'000	*Total HK$'000*
At 1 January 2021	32,191	32,191
Changes from financing cash flows		
Principal portion of lease payments	(13,955)	(13,955)
Interest element on lease liabilities	(974)	(974)
Total changes from financing cash flows	17,262	17,262
Other changes:		
Interest expense on lease liabilities	974	974
At 31 December 2021	18,236	18,236
Changes from financing cash flows		
Principal portion of lease payments	(14,280)	(14,280)
Interest element on lease liabilities	(648)	(648)
Total changes from financing cash flows	3,308	3,308
Other changes:		
Net increase in lease liabilities from lease extension	46,029	46,029
Interest expense on lease liabilities	648	648
At 31 December 2022	49,985	49,985

25 Off-balance sheet exposures

The following is a summary of the contractual amounts of each significant contingent liability and commitment:

	2022 *HK$'000*	*2021* *HK$'000*
Direct credit substitute	10,541	17,779
Loan commitments which are unconditionally cancellable	19,689,182	4,678,076
Forward forward deposits placed with immediate holding company	–	250,000
	19,699,723	4,945,855

The direct credit substitute represents financial guarantee the Bank issued to its immediate holding company for collateralised staff housing mortgage loan issued by its immediate holding company to the Bank's employees as part of staff benefit programme.

The amount of guarantee is the aggregated amount of loan granted to employees that was in excess of the HKMA regulatory loan to value ratio cap. The amount of 'excess' was assessed individually for each loan.

As of date of granting of staff housing mortgage loan, and as of 31 December 2022, these loans remain fully collateralised by the respective property values.

The remaining contractual maturities for the financial guarantee range between 16 years to 24 years.

Other commitments which are unconditionally cancellable represent the undrawn portion of the credit card facilities issued to customers.

The total credit risk weighted amount of exposures on direct credit substitute and forward forward deposits placed with immediate holding company is HK$10,541,000 (2021: HK$67,779,000). Analysis of expected credit loss provision on loan commitments which are unconditionally cancellable is included in Note 26(a).

26 Financial risk management and fair values of financial instruments

Risk management approach

Effective risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Bank. The Bank adds value to clients and therefore the communities in which it operates, generating returns for shareholders by taking and managing risk.

The Mox Risk Management Framework ("MRMF") enables the Bank to manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

26 Financial risk management and fair values of financial instruments (continued)

Risk management approach (continued)

The Three Lines of Defence model

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

Line of defence	Definition	Key responsibilities
First	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks	• Propose the risks required to undertake revenue-generating activities. • Identify, assess, monitor, and escalate risks and issues to Second Line and Senior Management and promote a healthy risk culture and good conduct. • Manage risks within Risk Appetite, ensure laws and regulations are being complied with and escalate significant regulatory non-compliance matters and developments to the Second Line and Senior Management. • Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the Second Line. • Own and design processes, controls and standards for adhering to Risk Type Frameworks and Policies set by the Second Line.
Second	The control functions independent of the First Line that provide oversight and challenge of risk management to provide confidence to the Chief Risk Officer, Senior Management and the Board	• Identify, monitor, and escalate risks and issues to the Chief Risk Officer, Senior Management and the Board or Board level committees, and promote a healthy risk culture and good conduct. • Oversee and challenge First Line risk taking activities and review First Line risk proposals. • Propose Risk Appetite ("RA") to the Board, monitor and report adherence to RA and intervene to curtail business if it is not in line with existing or adjusted RA. • Set risk data aggregation, risk reporting and data quality requirements.
Third	The internal audit function provides independent assurance over the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line. Its role is defined and overseen by the Audit Committee of the Board	• Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes. • Independently assess the adequacy of the design of controls and their operating effectiveness.

26 Financial risk management and fair values of financial instruments (continued)

Risk management approach (continued)

The Risk Function

The Chief Risk Officer directly manages the Risk function that is separate and independent from the origination, trading and sales functions of the businesses. The Risk function is responsible for:

– Maintaining the MRMF, ensuring it remains appropriate to the Bank's business activities, is effectively communicated and implemented across the Bank and administering related governance and reporting processes;

– Upholding the overall integrity of the Bank's risk and return decisions to ensure that risks are properly assessed, that these decisions are made transparently on the basis of this proper assessment and that risks are controlled in accordance with the Bank's standards and RA; and

– Overseeing and challenging the management of Principal Risk Types under the MRMF.

The independence of the Risk function is to ensure that the necessary balance in making risk and return decisions is not compromised by short-term pressures to generate revenues.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

Risk Appetite and profile

The Bank recognises the following constraints which determine the risks that the Bank is willing to take in pursuit of its strategy and the development of a sustainable business:

– **Risk capacity** is the maximum level of risk the Bank can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements, internal operational environment (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies.

– **Risk appetite** is defined by the Bank and approved by the Board. It is the maximum amount and type of risk that the Bank is willing to assume in pursuit of its strategy. Risk appetite cannot exceed risk capacity.

The Board has approved a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters, known as Risk Appetite Metrics and associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Bank. The Risk Appetite Statement is supplemented by an overarching statement outlining the Bank's Risk Appetite Principles.

26 Financial risk management and fair values of financial instruments (continued)

Risk Appetite and profile (continued)

Risk Appetite Principles: The Bank's Risk Appetite is in accordance with its overall approach to risk management and its risk culture. The Bank follows the highest ethical standards required by its stakeholders and ensures a fair outcome for its clients, the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. The Bank sets its risk appetite to enable it to grow sustainably and to avoid shocks to earnings or its general financial health and to manage its reputational risk in a way that would not materially undermine the confidence of its investors and all internal and external stakeholders.

Risk Appetite Statement: The Bank will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns. The Bank's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Bank's risk profile within risk appetite (and therefore also risk capacity). Status against risk appetite is reported to the Board Risk Committee and the Executive Risk Committee ("ERC"). This includes the reporting of breaches.

The Asset and Liability Committee ("ALCO") is responsible for ensuring that the Bank's risk profile is managed in compliance with the Risk Appetite set by the Board. The Board Risk Committee advises the Board on the Risk Appetite Statement and monitors the Bank's compliance with it.

Risk identification and assessment

Identification and assessment of potential adverse risk events is an essential first step in managing the risks of any business or activity. To ensure consistency in communication, the Bank uses Principal Risk Types to classify its risk exposures. Nevertheless, the Bank also recognises the need to maintain an overall perspective since a single transaction or activity may give rise to multiple types of risk exposure. Risk concentrations may arise from multiple exposures that are closely correlated, and a given risk exposure may change its form from one risk type to another.

To facilitate the above, the Bank maintains a dynamic risk identification process with inputs on the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives. The Bank maintains an inventory of the Principal Risk Types and sub-types that are inherent to the strategy and business model, near-term emerging risks that can be measured and mitigated to some extent, and uncertainties that are longer-term matters that should be on the radar but are not yet fully measurable.

26 Financial risk management and fair values of financial instruments (continued)

Stress testing

The objective of stress testing is to support the Bank in assessing that it:

- Does not have a portfolio with excessive concentrations of risk that could produce unacceptably high losses under severe but plausible scenarios;

- Has sufficient financial resources to withstand severe but plausible scenarios;

- Has the financial flexibility to respond to extreme but plausible scenarios; and

- Understands the Bank's key business model risks, considers what kind of event might crystallise those risks – even if extreme with a low likelihood of occurring – and has identified, as required, actions to mitigate the likelihood and/or the impact of those events.

Enterprise Stress Tests include Capital and Liquidity Adequacy Stress Tests including in the context of Recovery and Resolution.

Various stress tests are performed at business and portfolio level. Bespoke scenarios are applied to the Bank's market and liquidity positions. In addition to these, stress tests may also focus on the potential impact of macroeconomic, geo-political and physical events on relevant risk types.

The Board has the ultimate responsibility to oversee and challenge the design and execution of stress testing and scenario analyses. The Board exercises their responsibility by approving the overall stress testing framework in the MRMF on an annual basis and delegating authority to the Board Risk Committee (BRC) to approve stress testing results, and to be engaged in the discussion of results and decisions to take or not to take risk mitigating actions to address vulnerabilities identified. The BRC relies on the recommendation from the CRO and ERC.

Based on the stress test results, the Chief Risk Officer and Chief Financial Officer can recommend strategic actions to ensure that the Bank strategy remains within the Board approved Risk Appetite.

Principal Risk Types

Principal Risk Types are those risks that are inherent in our strategy and business model and have been formally defined in the Bank's MRMF. These risks are managed through distinct Risk Type Frameworks (RTF) which are approved by the Board. The Principal Risk Types and associated Risk Appetite Statements are approved by the Board.

26 Financial risk management and fair values of financial instruments (continued)

Principal risk types (continued)

The table below shows the Bank's current Principal Risk Types:

Principal risks	Definition
Credit	Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Bank.
Traded	Potential for loss resulting from activities undertaken by the Bank in financial markets.
Capital and liquidity	Capital: potential for insufficient level, composition or distribution of capital to support our normal activities. Liquidity: risk that we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due.
Operational and Technology	Potential for loss resulting from inadequate or failed internal processes, technology events, human error, or from the impact of external events (including legal risks).
Reputational and Sustainability	Potential for damage to the franchise (such as loss of trust, earnings or market capitalisation), because of stakeholders taking a negative view of the organisation, through actual or perceived actions or inactions – including a failure to uphold responsible business conduct, or lapses in our commitment to do no significant environmental and social harm through our client and third-party relationships or our own operations.
Compliance	Potential for penalties or loss to the Bank or for an adverse impact to our clients, stakeholders or to the integrity of the markets we operate in through a failure on our part to comply with laws or regulations.
Information and Cyber Security	Risk to the Bank's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification, or destruction of information assets and/or information systems.
Financial Crime	Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption.
Model Risk	Potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models, due to errors in the development, implementation or use of such models.

26 Financial risk management and fair values of financial instruments (continued)

Executive and Board risk oversight

The Board has ultimate responsibility for risk management and is supported by the Executive Committee, Board Audit Committee, Board Risk Committee, Nomination Committee and Remuneration Committee. The Board approves the MRMF based on the recommendation from the Board Risk Committee, which also recommends the Bank's risk appetite statement.

The Board appoints the Executive Committee to maintain a sound system of internal control and risk management. The ERC, through its authority delegated by the Board via Executive Committee, oversees effective implementation of the MRMF and is responsible for the management of all risks other than those delegated to the ALCO.

The Board Risk Committee receives regular reports on risk management, including the Bank's portfolio trends, policies, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board to the appropriate functional and senior management and committees. Information regarding material risk issues and compliance with policies and standards is communicated to the appropriate functional and senior management and committees.

Executive Risk Committee

The ERC is responsible for ensuring the effective management of risk throughout the Bank in support of the Bank's strategy. The Chief Risk Officer chairs the ERC, whose members are drawn from the management team. The Committee determines the overall MRMF for the Bank, including the delegation of any part of its authorities to appropriate individuals or properly constituted committees.

The ERC requests and receives information to fulfil its governance mandates relating to the risks to which the Bank is exposed. As with the Board Risk Committee, the ERC and ALCO receive reports that include information on risk measures, Risk Appetite metrics and thresholds, risk concentrations, forward-looking assessments, updates on specific risk situations or actions agreed by these committees to reduce or manage risk.

Asset and Liability Committee

The ALCO is chaired by the Chief Executive Officer. The ALCO will guide the Bank's strategy on balance sheet optimisation and ensure that, in executing the Bank's strategy, the Bank operates within internally approved risk appetite and external regulatory requirements relating to liquidity, capital, leverage, interest rate risk in the banking book, banking book basis risk and meets internal and external recovery and resolution planning requirements (where applicable).

26 Financial risk management and fair values of financial instruments (continued)

Risk profile

The Bank manages and controls our Principal Risk Types through distinct risk types frameworks, policies and Board-approved Risk Appetite.

(a) Credit risk

Credit Risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures may arise from both the banking and trading books.

Credit risk is managed through Credit Risk Type Framework ("Credit RTF") that sets out policies and procedures covering the measurement and management of credit risk. The Credit RTF is the principal risk type part of the overall Mox Risk Management Framework ("MRMF"), which was approved by the Banks' Board of Directors. It allocates roles and responsibilities in credit risk measurement and management in a manner consistent with the "Three Lines of Defence" model prescribed by the Bank's MRMF.

The Credit RTF is built on a risk-based approach, whereby the risk management plans, processes, activities, and resource allocations are determined in accordance with the level of risk. The framework considers processes and tools that are forward-looking – they are repeatable, sustainable and anticipate future needs.

The Bank's credit risk management principles are as follows:

- All credit risk assumed should be within risk appetite and related risk appetite metrics and consistent with the approved strategy.
- All exposures booked are measured, monitored, recorded and capped within the acceptable exposure limit and tenure.
- Lending decisions are based primarily on repayment capability. A holistic approach is adopted in assessing the client's needs by assessing income, risk profile, indebtedness and ability to service total debt.
- Optimise risk-adjusted returns with controlled volatility and within overall risk appetite

The Risk function is the custodian of the integrity of the risk-return profile of the asset portfolio. The risk profile is managed to maintain a low probability of an unexpected loss event that would materially undermine the confidence of our investors.

Credit Policies, and Process Standards are in place to set the minimum standards for the overall management and control of credit risk in Mox Bank. These mandatory standards, which are aligned with the risk principles, are applied to all lending products and cover all key credit activities. When approving Credit Policies and Standard, it takes into account the requirement of the Hong Kong regulations and the guidelines issued by the Hong Kong Monetary Authority.

26 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Expected Credit Losses (ECL)

ECL are determined for all financial debt instruments that are classified at amortised cost, fair value through other comprehensive income, undrawn loan commitments and financial guarantees.

ECL is computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

Credit risk exposures are classified into three stages:

- Stage 1 represents exposures with no significant increase in credit risk since the time of origination (referred to as ‘non-deteriorated book’). For stage 1 exposures, ECL is computed covering the next 12 months from the reporting date or the remaining tenor of the asset, whichever is shorter.

- Stage 2 represents exposures that have experienced a significant increase in credit risk’ (“SICR”) at the reporting date compared to the time of origination (referred to as ‘Significantly Deteriorated Book’). For stage 2 exposures, ECL is computed for the lifetime of the asset.

- Stage 3 represents exposures deemed “Credit Impaired” (or default). Exposures are considered credit-impaired when they have either: a) 90 days past due, or b) assets with early recognised loss (such as bankruptcy, fraud, death, etc). For stage 3 exposures, ECL is computed for the lifetime of the asset.

Where necessary, adjustments or overlays are used to amend results for incorporating forward looking information. The ECL at any reporting date is a discounted value for future losses using the original effective interest rate (or contractual rate if effective interest rate is not available).

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition, considering all reasonable and supportable information, including that which is forward-looking.

The expected credit losses on exposures shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment.

The expected credit loss methodologies implemented commensurate with the complexity, structure and risk profile of the Bank’s exposures.

26 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Calculation of ECL

The Bank calculates the ECL by determining probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and expected lifetime. The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

- PD represents the likelihood of a borrower defaulting on its financial obligation. The PD information is obtained through default curve extrapolation approach on external aggregated default data by credit rating, adjusted by internal historical default rate.

- LGD measures the loss severity in the case of default. The LGD information is obtained by benchmarking market average.

- EAD is the amount that the Bank expects to be owed at the time of default.

Incorporation of forward-looking information into the ECL models

Forward looking information is incorporated to calculate the probability weighted forward-looking ECL. Different scenarios such as upside, downside scenarios are also considered for estimating the ECL.

- Based on the study of relationship between external aggregated default data and macro-economic factor (e.g. unemployment rate), the Bank selects scenarios that are more reflective of future economic situations.

- The scenarios and probability of occurrence will be reviewed and subject to management decision on a regular basis.

Significant Increase in Credit Risk ("SICR")

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- The borrower is more than or equal to 30 days past due on its contractual payments;

- The borrower's external rating is downgraded more than predetermined criteria since initial recognition.

Definition of default and credit-impaired assets

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

- The borrower is more than or equal to 90 days past due on its contractual payments.

- The borrower is bankrupt.

- The borrower is unlikely to honour its credit obligation.

26 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Write-offs Policy

(1) Contractual Write-off (150 days past due)

Loan outstanding amount must be written off upon 150 days past due. Collection activities would continue to remind customers about their payment obligation and continued to recover the outstanding amount owed to the Bank.

(2) Early Write-off

Early write-off refers to the write-off of loan outstanding amount which is less than 150 days past due. Reasons include but not limited to bankruptcy, fraud or deceased cases.

Credit Risk Exposure

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

2022

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
On-balance sheet credit exposures				
Balances with central bank	1,072,448	–	–	1,072,448
Investment securities	2,877,424	–	–	2,877,424
Advances to customers	4,899,119	134,225	10,810	5,044,154
Amount due from immediate holding company	795,856	–	–	795,856
Amount due from fellow subsidiary	178	–	–	178
Amounts due from related companies	90,234	–	–	90,234
Prepayments and other assets	7,221	–	–	7,221
	9,742,480	134,225	10,810	9,887,515
Off-balance sheet exposures				
Direct credit substitute	10,541	–	–	10,541
Other commitments which are unconditionally cancellable	19,466,503	210,334	12,345	19,689,182
Forward forward deposit	–	–	–	–
	19,477,044	210,334	12,345	19,699,723
Total credit exposures	29,219,524	344,559	23,155	29,587,238

26 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Credit Risk Exposure (continued)

2021

	Stage 1 HK$'000	*Stage 2 HK$'000*	*Stage 3 HK$'000*	*Total HK$'000*
On-balance sheet credit exposures				
Balances with central bank	419,686	–	–	419,686
Investment securities	2,943,148	–	–	2,943,148
Advances to customers	636,351	72,902	943	710,196
Amount due from immediate holding company	2,180,788	–	–	2,180,788
Amount due from fellow subsidiary	80	–	–	80
Amounts due from related companies	1,550	–	–	1,550
Prepayments and other assets	16,425	–	–	16,425
	6,198,028	72,902	943	6,271,873
Off-balance sheet exposures				
Direct credit substitute	17,779	–	–	17,779
Other commitments which are unconditionally cancellable	4,522,906	153,965	1,205	4,678,076
Forward forward deposit	250,000	–	–	250,000
	4,790,685	153,965	1,205	4,945,855
Total credit exposures	10,988,713	226,867	2,148	11,217,728

Investment securities

The following table analyses treasury bills. The standard credit ratings used by the Bank are those used by Standard & Poor's or their equivalent.

	2022 HK$'000	*2021 HK$'000*
AA- to AA+	2,877,424	2,943,148

26 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Analysis of expected credit loss provision on financial instruments by stage

	At 31 December 2022			
	Stage 1 12-month ECL HK$'000	*Stage 2 Lifetime ECL HK$'000*	*Stage 3 Lifetime ECL HK$'000*	*Total HK$'000*
Expected credit loss provision on:				
– Advances to customers (Note 15)	60,439	16,049	10,324	86,812
– Loan commitments which are unconditionally cancellable (Note 21)	12,088	4,274	–	16,362
	72,527	20,323	10,324	103,174

	At 31 December 2021			
	Stage 1 12-month ECL HK$'000	*Stage 2 Lifetime ECL HK$'000*	*Stage 3 Lifetime ECL HK$'000*	*Total HK$'000*
Expected credit loss provision on:				
– Advances to customers (Note 15)	2,810	11,881	900	15,591
– Loan commitments which are unconditionally cancellable (Note 21)	2,619	4,282	–	6,901
	5,429	16,163	900	22,492

Movement in credit impairment

The loss allowance recognised during the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1, Stage 2 and Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired during the period.
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised during the period; and
- Write-offs of allowances related to assets that were written off during the period.

26 Financial risk management and fair values of financial instruments (continued)

(a) *Credit risk (continued)*

Movement in credit impairment (continued)

Movement in advances to customers and its credit impaiment provision (ECL)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000
At 1 January 2022	**636,351**	**2,810**	**633,541**	**72,902**	**11,881**	**61,021**	**943**	**900**	**43**	**710,196**	**15,591**	**694,605**
Net transfers between stages	**6,982**	**631**	**6,351**	**(43,881)**	**(7,895)**	**(35,986)**	**36,899**	**7,264**	**29,635**	**–**	**–**	**–**
Net change in exposures	**4,255,786**	**66,778**	**4,189,008**	**105,204**	**3,814**	**101,390**	**–**	**–**	**–**	**4,360,990**	**70,592**	**4,290,398**
Net re-measurement from stage change	**–**	**(9,780)**	**9,780**	**–**	**8,249**	**(8,249)**	**–**	**28,733**	**(28,733)**	**–**	**27,202**	**(27,202)**
Write-offs	**–**	**–**	**–**	**–**	**–**	**–**	**(27,032)**	**(27,032)**	**–**	**(27,032)**	**(27,032)**	**–**
Recoveries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**459**	**(459)**	**–**	**459**	**(459)**
At 31 December 2022	**4,899,119**	**60,439**	**4,838,680**	**134,225**	**16,049**	**118,176**	**10,810**	**10,324**	**486**	**5,044,154**	**86,812**	**4,957,342**

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000	Gross balance HK$'000	ECL HK$'000	Net carrying amount HK$'000
As 1 January 2021	729	10	719	–	–	–	–	–	–	729	10	719
Net transfers between stages	(74,452)	(539)	(73,913)	72,902	530	72,372	1,550	9	1,541	–	–	–
Net change in exposures	710,074	3,339	706,735	–	–	–	–	–	–	710,074	3,339	706,735
Net re-measurement from stage change	–	–	–	–	11,351	(11,351)	–	1,498	(1,498)	–	12,849	(12,849)
Write-offs	–	–	–	–	–	–	(607)	(607)	–	(607)	(607)	–
At 31 December 2021	636,351	2,810	633,541	72,902	11,881	61,021	943	900	43	710,196	15,591	649,605

26 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk

Liquidity and Funding risk is the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due.

The Bank's Liquidity and Funding Risk framework requires the Bank to ensure that it operates within predefined liquidity limits and remains in compliance with the liquidity policies and practices, as well as regulatory requirements.

The Bank achieves this through a combination of setting risk appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

Since the beginning of the year there have been no significant changes in the Bank's liquidity risk policies.

Primary sources of funding

The Bank's funding strategy is largely driven by its policy to maintain adequate liquidity resources at all times to ensure that there is no significant risk that its liabilities cannot be met as they fall due and to ensure full compliance of regulatory requirements. The Bank aims to maintain diversified and stable funding sources. A monitoring metric on funding concentration and a threshold over wholesale borrowing are set to avoid over-reliance on a small group of fund providers or on wholesale funding markets. As of 31 December 2022, our assets are primarily funded by diversified retail-based customer deposits, without relying on wholesale borrowing.

Liquidity Risk Management

Treasury Risk is responsible for developing the risk type framework for liquidity risk and for complying with regulatory requirements. Treasury Risk, as the second line of defence, provides independent challenge and oversight of the first line risk management activities to liquidity risk.

The Bank develops and adopts policies to address material liquidity risks and aims to maintain its risk profile within the Bank's Risk Appetite. The Bank implements various business-as-usual and stress risk measures and monitors these against limits and management action triggers. Balance sheet plans and budgets are reviewed by ALCO to ensure funding strategy and structure are appropriate and efficient. These ensure that the Bank maintains an adequate and well diversified liquidity buffer and stable funding base, and that it meets its liquidity and funding regulatory requirements.

Stress risk measures include internal liquidity stress testing covering different stress scenarios. This aims to ensure the Bank holds an adequate buffer of high-quality assets to survive extreme but plausible liquidity stress scenarios for a period of time as defined under each scenario. All scenarios include, but are not limited to, modelled outflows for funding, off-balance sheet funding risk, and intraday risk. Stress testing results show that a positive surplus was maintained under all scenarios at 31 December 2022 i.e. the Bank is able to survive for a period of time as defined under each scenario.

26 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

Liquidity Risk Management (continued)

The Bank also maintains a Recovery Plan which is a live document to be used by management in the event of stress in order to restore the Bank to a stable and sustainable position. The Recovery Plan includes a set of Recovery Indicators, an escalation framework and a set of management actions capable of being implemented in a liquidity stress.

Governance

At the Board level, the Board Risk Committee oversees the effective management of liquidity risk. At the executive level, the Asset and Liability Committee ensures the effective management of risk throughout the Bank in support of the Bank's strategy, guides the Bank's strategy on balance sheet optimisation and ensures the Bank operates within the internally approved Risk Appetite and other internal and external liquidity requirements.

Monitoring

On a day-to-day basis, the management of liquidity is performed by Treasury Markets. The Bank regularly reports and monitors liquidity risk inherent in its business activities and those that arise from internal and external events. The management of liquidity is monitored by Treasury Risk with appropriate escalation processes in place.

Internal risk management reports covering the balance sheet and the liquidity position of the Bank are presented to the Asset and Liability Committee. The reports contain key information on balance sheet trends, exposures against Risk Appetite and supporting risk measures which enable members to make informed decisions around the overall management of the Bank's balance sheet.

Liquidity position

The Bank maintains the Liquidity Maintenance Ratio ("LMR") to ensure the Bank has sufficient liquefiable assets to meets its liquidity needs over a calendar month.

The Bank monitors and reports its liquidity position in line with the Banking (Liquidity) Rules issued by the HKMA and has maintained its liquidity position above the prudential requirements.

The following table shows the remaining contractual maturities at the end of the reporting period of the Bank's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Bank can be required to pay:

26 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

Liquidity position (continued)

2022

	Repayable on demand HK$'000	*Within 1 year HK$'000*	*Over 1 year HK$'000*	*Undated HK$'000*	*Total HK$'000*	*Statement of financial position carrying amount HK$'000*
On balance sheet exposures						
Deposits from customers	8,365,260	–	–	–	8,365,260	8,365,260
Amount due to immediate holding company	346,207	–	–	–	346,207	346,207
Amount due to fellow subsidiary	2,260	–	–	–	2,260	2,260
Amounts due to related companies	15,103	–	–	–	15,103	15,103
Property lease liabilities	–	12,855	40,483	–	53,338	49,985
Receipts in advance	–	–	–	22,614	22,614	22,614
Expected credit loss provision on loan commitments	–	–	–	16,362	16,362	16,362
Accruals of expenses	96,903	39,038	–	–	135,941	135,941
Other liabilities	70,038	–	–	–	70,038	70,038
	8,895,771	51,893	40,483	38,976	9,027,123	9,023,770
Off balance sheet exposures						
Direct credit substitute	–	–	–	10,541	10,541	10,541
Forward forward deposits	–	–	–	–	–	–
	–	–	–	10,541	10,541	10,541
Total exposures	8,895,771	51,893	40,483	49,517	9,037,664	9,034,311

26 Financial risk management and fair values of financial instruments (continued)

(b) *Liquidity risk (continued)*

Liquidity position (continued)

2021

	Repayable on demand HK$'000	*Within 1 year HK$'000*	*Over 1 year HK$'000*	*Undated HK$'000*	*Total HK$'000*	*Statement of financial position carrying amount HK$'000*
On balance sheet exposures						
Deposits from customers	5,374,684	–	–	–	5,374,684	5,374,684
Amount due to immediate holding company	134,687	–	–	–	134,687	134,687
Amount due to fellow subsidiary	328	–	–	–	328	328
Amounts due to related companies	5,944	–	–	–	5,944	5,944
Property lease liabilities	–	14,928	3,731	–	18,659	18,236
Receipts in advance	–	–	–	19,690	19,690	19,690
Expected credit loss provision on loan commitments	–	–	–	6,901	6,901	6,901
Accruals of expenses	96,745	36,815	–	–	133,560	133,560
Other liabilities	18,682	–	–	–	18,682	18,682
	5,631,070	51,743	3,731	26,591	5,713,135	5,712,712
Off balance sheet exposures						
Direct credit substitute	–	–	–	17,779	17,779	17,779
Forward forward deposits	–	250,000	–	–	250,000	250,000
	–	250,000	–	17,779	267,779	267,779
Total exposures	5,631,070	301,743	3,731	44,370	5,980,914	5,980,491

(c) *Traded risk*

Traded risk is the potential for loss resulting from activities undertaken by the Bank in the financial market. The Bank has established policies and procedures to identify and analyse these risks, to set appropriate risk controls, and to monitor the risks continually by means of reliable and up-to-date management and information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in the market and best practice risk management processes.

26 Financial risk management and fair values of financial instruments (continued)

(i) Interest rate risk in banking book

The Bank defines interest rate risk in the banking book ("IRRBB") as the potential for a reduction in earnings or economic value due to movements in interest rates. This risk arises from differences in the re-pricing profile, interest rate basis, and optionality of banking book assets, liabilities and off-balance sheet items. IRRBB represents an economic and commercial risk to the Bank and its capital adequacy. The Bank monitors IRRBB in line with the HKMA Supervisory Policy Manual on "Interest Rate Risk Management'. As at 31 December 2022, the IRRBB metric remained within the regulatory threshold.

(ii) Foreign currency risk

The Bank's functional currency is Hong Kong dollars ("HKD"). The Bank is exposed to foreign currency risk through certain transactions that are predominately denominated in United States dollars ("USD"). As the HKD is pegged to the USD, the Bank considers the risk of movements in exchange rates between the HKD and the USD to be insignificant. The net foreign currency exposures are kept to an acceptable level and the risk is not considered significant.

(d) Financial instruments by category

The Bank's financial instruments include the following:

	2022 *HK$'000*	*2021* *HK$'000*
Financial assets at fair value through other comprehensive income		
– Investment securities	2,877,424	2,943,148
Financial assets at amortised cost		
– Balances with central bank	1,072,448	419,686
– Advances to customers	4,957,342	694,605
– Amount due from immediate holding company	795,856	2,180,788
– Amount due from fellow subsidiary	178	80
– Amounts due from related companies	90,234	1,550
– Other assets	7,221	16,425
	9,800,703	6,256,282
Financial liabilities at amortised cost		
– Deposits from customers	8,365,260	5,374,684
– Amount due to immediate holding company	346,207	134,687
– Amount due to fellow subsidiary	2,260	328
– Amounts due to related companies	15,103	5,944
– Accruals of expenses and other liabilities	287,157	197,069
	9,015,987	5,712,712

26 Financial risk management and fair values of financial instruments (continued)

(e) Valuation of financial instruments carried at amortised costs

All financial instruments are stated at amounts not materially different from their fair value as at 31 December 2022 and 2021.

(f) Valuation of financial instruments carried at fair value

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

Valuation methodologies

The valuation hierarchy is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted price in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	2022			
	Level 1	*Level 2*	*Level 3*	*Total*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment securities at fair value through other comprehensive income	2,877,424	–	–	2,877,424

	2021			
	Level 1	*Level 2*	*Level 3*	*Total*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment securities at fair value through other comprehensive income	2,943,148	–	–	2,943,148

26 Financial risk management and fair values of financial instruments (continued)

(g) Maturity analysis on assets and liabilities

The table below shows an analysis of assets and liabilities presented according to when they are expected to be recovered or settled.

	At 31 December 2022		
	Within 12 months HK$'000	*After 12 months HK$'000*	*Total HK$'000*
Balances with central bank	1,072,448	–	1,072,448
Investment securities	2,877,424	–	2,877,424
Advances to customers	3,714,253	1,243,089	4,957,342
Amount due from immediate holding company	795,856	–	795,856
Amount due from fellow subsidiary	178	–	178
Amounts due from related companies	90,234	–	90,234
Intangible assets	–	477,381	477,381
Property, plant and equipment	–	54,742	54,742
Prepayments and other assets	17,732	70,509	88,241
	8,568,125	1,845,721	10,413,846
Deposits from customers	8,365,260	–	8,365,260
Amount due to immediate holding company	346,207	–	346,207
Amount due to fellow subsidiary	2,260	–	2,260
Amounts due to related companies	15,103	–	15,103
Other payables	223,293	79,129	302,422
	8,953,123	79,129	9,031,252

26 Financial risk management and fair values of financial instruments (continued)

(g) Maturity analysis on assets and liabilities (continued)

	At 31 December 2021		
	Within 12 months HK$'000	*After 12 months HK$'000*	*Total HK$'000*
Balances with central bank	419,686	–	419,686
Investment securities	2,943,148	–	2,943,148
Advances to customers	601,012	93,593	694,605
Amount due from immediate holding company	2,180,788	–	2,180,788
Amount due from fellow subsidiary	80	–	80
Amounts due from related companies	1,550	–	1,550
Intangible assets	–	461,179	461,179
Property, plant and equipment	–	24,275	24,275
Prepayments and other assets	30,327	7,229	37,466
	6,176,501	588,276	6,762,777
Deposits from customers	5,374,684	–	5,374,684
Amount due to immediate holding company	134,687	–	134,687
Amount due to fellow subsidiary	328	–	328
Amounts due to related companies	5,944	–	5,944
Other payables	174,172	27,748	201,920
	5,689,815	27,748	5,717,563

27 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Bank entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	2022 HK$'000	*2021 HK$'000*
Short-term employee benefits	45,975	42,600
Post-employment benefits	1,801	1,606
Share based payments	3,537	1,616
	51,313	45,822

27 Material related party transactions (continued)

(b) Credit facilities and loans to key management personnel

During the year, the Bank provided credit facilities to key management personnel of the Bank and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2022 HK$'000	*2021 HK$'000*
Loan balances:		
At 1 January	478	169
At 31 December	2,200	478
Average balance during the year	1,425	312
Income earned	–	–

(c) Loans, quasi-loans and other dealing with directors and entities controlled by directors

Information of the Bank disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2022 HK$'000	*2021 HK$'000*
Aggregate amount of relevant loans by the Bank outstanding at 31 December	878	250
Maximum aggregate amount of relevant loans by the Bank outstanding during the year	1,267	831

27 Material related party transactions (continued)

(d) Transactions with other related parties

During the year, other than those that have been included in other notes to financial statements, the Bank entered into the following material related party transactions:

	Note	*2022* *HK$'000*	*2021* *HK$'000*
Transactions with immediate holding company			
— Fees and commission received	(i)	17,899	4,451
— Service fee paid	(ii)	(11,758)	(15,114)
Transactions with related companies			
— Reimbursement of marketing costs	(iii)	10,116	1,550
— Purchases of services	(iv)	(26,028)	(24,295)

Notes:

(i) Fee and commission received represent consultancy on information technology services provided to a fellow subsidiary, under contract with immediate holding company.

(ii) The service fee paid to immediate holding company relates to service support for various functions. The service fee is charged on a cost basis.

(iii) Co-sharing of expenses made under joint promotional initiatives at fixed pre-determined rate.

(iv) Purchases of services from related parties are made on similar terms as those with other suppliers.

28 Share based payment

(i) Share based payment operated by Mox Bank Limited

Cash-settled Share Option (the "share award")

A cash-settled Share Option plan was approved by Directors of the Bank in April 2020. The share award serves to meet regulatory requirements to defer a portion of variable pay for senior management.

In year 2022, the Share Option plan was extended to include broader group of employees who meet certain criteria, which acts as a tool to incentivise employees with good performance.

28 Share based payment (continued)

(i) Share based payment operated by Mox Bank Limited (continued)

The share award is a zero exercise price option, which are vested proportionately over three years period from time of grant. It is granted to participants based on the latest market value of a share of the Bank. Participants are allowed up to seven years from date of vest to exercise the option at no cost to the participants. The option when exercised, are settled in cash, based on the most recent valuation of the share price of the Bank. Any unexercised options after seven years will lapse.

Share award granted to directors and chief executive are subject to approval in advance by the Remuneration Committee.

Valuation

The share award is measured at fair value, which is based on the share price valuation of the Bank conducted by independent external valuation experts. The income approach is used to determine an appropriate range of values for the Bank. Valuation is relied on the discounted cash flow methodology and considered sensitivities on various key drivers. Discounted cash flow analysis involved forecasting the relevant cash flow stream over an appropriate period and then discounting it back to a present value at a discount rate which is determined based on the Capital Asset Pricing Model.

Independent valuation is expected to be carried out at least once annually.

Reconciliation of share award movements for the year

	2022 *No. of units*	*2021* *No. of units*
Outstanding at 1 January	395,536	518,645
Granted	784,767	375,691
Forfeited	(96,701)	(357,810)
Lapsed	–	–
Expired	–	–
Exercised	(180,981)	(140,990)
Outstanding at 31 December	902,621	395,536
Share price at grant date (HK$)	12.044	10.813
Exercisable at the end of the year (no. of units)	–	21,627
Weighted average contractual remaining life	5.68 years	5.48 years

28 Share based payment (continued)

(ii) Share based payment operated by Standard Chartered PLC ("SC PLC")

SC PLC, the ultimate holding company of the Bank, operates a number of share-based arrangements for employees of the Bank.

2011 Standard Chartered Share Plan (the "2011 Plan")

The 2011 Plan was approved by shareholders in May 2011 and is SC PLC's main share plan. Since approval, it has been used to deliver various types of share awards:

(i) Deferred share awards

Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables SC PLC to meet regulatory requirements relating to deferral levels, and is in line with market practice.

(ii) Restricted shares

Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables SC PLC to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by the SC PLC's competitors, restricted share awards are not subject to an annual limit and do not have any performance measures.

Under the 2011 Plan, no grant price is payable to receive an award. The 2011 Plan has expired and no further awards will be granted under this plan.

2013 Sharesave Plan

Under the 2013 Sharesave Plan, employees may open a savings contract. Within a maturity period of six months after the third anniversary, employees may save up to £250 per month over three years to purchase ordinary shares of SC PLC at a discount of up to 20 percent on the share price at the date of invitation (this is known as the 'option exercise price'). There are no performance measures attached to options granted under the 2013 Sharesave Plan and no grant price is payable to receive an option.

The 2013 Sharesave Plan was approved by shareholders of SC PLC in May 2013, and expires in May 2023.

29 Immediate parent and ultimate controlling party

The directors consider the immediate holding company and ultimate holding company of the Bank to be Standard Chartered Bank (Hong Kong) Limited and Standard Chartered PLC respectively, which are incorporated in Hong Kong and the United Kingdom and registered in Hong Kong and England and Wales respectively. Standard Chartered PLC produces financial statements available for public use.

30 Post balance sheet events

On 1 February 2023, the Bank allotted 41,055,000, 5,474,000, and 8,211,000 ordinary shares to Standard Chartered Bank (Hong Kong) Limited, PCCW Limited, and HKT Limited respectively for a total consideration of HK$547,400,000.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2022

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These include the following which may be relevant to the Bank.

	Effective for accounting periods beginning on or after
HKFRS 17: Insurance Contracts	1 January 2023
Amendments to HKAS 1: Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 8: Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statements 2: Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The Bank is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Bank's financial statements.

Appendix I: Corporate Governance Report (unaudited)

The following is the disclosure on Corporate Governance of Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority ("HKMA")

Corporate Governance Practices and objectives

Mox Bank Limited (the "Bank") has followed the module on "Corporate Governance of Locally Incorporated Authorised Institutions" ("CG-1") under the Supervisory Policy Manual ("SPM") issued by the HKMA throughout the year ended 31 December 2022.

Board Composition

Chair and Non-Executive Director

Mary Wai Yi HUEN

Executive Director

Barbaros UYGUN

Non-Executive Directors

Michael Andres GORRIZ
Samir SUBBERWAL
Susanna Hon-Hing HUI
Janet Yan FENG

Independent Non-Executive Directors

Allen Kam Sing MA	
Jeny Mei-Chun YEUNG	(resigned on 30 September 2022)
Frank Yee Chon LYN	
Tsz Kiu Jason Felix CHU	(appointed on 29 September 2022)

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Mary Wai Yi HUEN
Chair and Non-Executive Director

Ms. Huen was appointed to the Board on 10 August 2018.

Ms. Huen is currently the Executive Director and Chief Executive Officer (CEO) of Standard Chartered Bank (Hong Kong) Limited. She became the CEO, Standard Chartered Bank Hong Kong in March 2017 and has been appointed as the Cluster CEO for Hong Kong, Taiwan and Macau of Standard Chartered Bank since 1 January 2021. She joined the Standard Chartered Group's Management Team in December 2021. She was appointed as the chairperson of Standard Chartered Bank (Taiwan) Limited effective February 2023.

Ms. Huen has over 30 years of experience in business management and banking services. Since joining the Standard Chartered Bank in 1991, she has held various key positions across balance sheet product management, wealth management and distribution. Prior to her current role, Ms. Huen was Regional Head of Retail Banking, Greater China & North Asia and the Head of Retail Banking, Hong Kong.

Ms. Huen is the vice chairperson of the Hong Kong Association of Banks, a member of the Banking Advisory Committee of the Hong Kong Monetary Authority, the Financial Infrastructure and Market Development Sub-Committee under the Exchange Fund Advisory Committee. She is also a representative of Hong Kong, China to the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council, a member of Human Resources Planning Commission, a board member of the Hong Kong Tourism Board and Hospital Authority.

Ms. Huen received a Bachelor of Arts degree from the University of Hong Kong.

Barbaros UYGUN
Executive Director and Chief Executive Officer

Mr. Uygun was appointed to the Board and became the Chief Executive Officer in September 2021.

Mr. Uygun is a proven leader with more than 25 years of banking experience spanning business management and strategy, marketing, product development, and digital transformation. He joins Mox with a solid international track record in establishing digital banks and leading them to sustainable profitability.

Prior to joining Mox, Mr. Uygun held senior leadership positions at ING Bank Austria, ING Bank Turkey, and Garanti Bank BBVA, where he led their respective digital initiatives. As the CEO of ING Bank Austria, he transformed the bank from one focused on savings into a full-service digital bank. At ING Bank Turkey, he transformed and digitized the retail business for sustainable profitability and grew its profit base materially. He further established a full-service digital bank at Garanti Bank BBVA to expand its customer base exponentially.

Mr. Uygun has a Certificate in Business Excellence (CIBE) from Columbia Business School and a Master of Business Administration from Boğaziçi University in Istanbul, Turkey, and holds a Master of Science in Industrial Engineering from Marmara University.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Michael Andres GORRIZ
Non-Executive Director

Mr. Gorriz was appointed to the Board in February 2019.

With over 30 years of experience in the IT industry, Mr. Gorriz is currently an Independent Non-Executive Director of Mercedes-Benz Automobile Finance Co., Ltd. in China, Swiss IT Security AG (an IT security service group based in Switzerland), Kyberlife (an e-commerce marketplace start-up for life sciences, pharmaceutical, and healthcare industries headquartered in Singapore) and authID Inc. (a Nasdaq-listed global provider of biometric identity proofing and authentication solutions delivered by an easy to integrate IDaaS platform with its headquarters located in Denver, Colorado).

Mr. Gorriz is also currently a Board Advisor to Axis Bank Limited in India and Zscaler (NASDAQ: ZS), a cloud security company headquartered in San Jose, California.

From 2015 to 2021, Mr. Gorriz was Vice President and Chief Information Officer at Daimler AG where he was globally responsible for strategy, planning and development of the Daimler Group's IT systems, as well as the operation of its technical infrastructure. During his 29 years at Daimler, Mr. Gorriz progressed through specialist research and design roles in aerospace to general management roles.

Mr. Gorriz is an industry acclaimed technology leader and has won numerous awards - including the Global CIO award of the Indian NASSCOM and is one of only three CIOs in Germany nominated to a list of the 40 most important people in IT in the last 40 years.

Mr. Gorriz is a physicist and engineer by background and obtained a PhD in Engineering.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Samir SUBBERWAL
Non-Executive Director

Mr. Subberwal was appointed to the Board in August 2018.

Mr. Subberwal is currently the Head of Consumer, Private and Business Banking, Asia and Global Head of Digital Business of Standard Chartered Group.

Mr. Subberwal has around 28 years of experience in banking. Prior to his current role, he was the Managing Director & Regional Head, Retail Banking, Greater China & North Asia of Standard Chartered Group responsible for developing business strategy, delivering financial performances, improving business efficiency, driving digital agenda, and enhancing organisational efficiency in the region. He also had the responsibility to identify opportunities for enhancing shareholder value through organisational and external growth with optimal allocation of resources.

Mr. Subberwal also served as the Managing Director & Head, Retail Banking, Hong Kong and was responsible for leading in the overall development, implementation and delivery of a distinctive Retail Banking business strategy and financial plans to ensure the businesses are managed in alignment with Standard Chartered Bank Group and regional policies and risk parameters.

Prior to the Retail Banking Head role, Mr. Subberwal was the Head, Integrated Distribution, Hong Kong. He made a significant contribution to the success of the business. Integrated Distribution under Samir's leadership drove balance sheet and wealth management revenue growth through building capability and scale across branch banking, new business & digital. He also made significant progress in the Digital Main Bank agenda covering active customers, online sales & multi-channel customer experience through two flagship branches bringing digital and physical channels together for an enhanced customer experience.

Mr. Subberwal originally joined the Standard Chartered as a Management Trainee and has since held a variety of increasingly senior roles across five different geographies. He has in these markets done roles across sales, business development, product management & Wealth Management.

Mr. Subberwal holds a Master of Business Administration, University of Missouri, Kansas City, USA.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Susanna Hon-Hing Hui
Non-Executive Director

Ms. Hui was appointed to the Board in May 2019.

Ms. Hui is currently the Acting Group Managing Director, Group Chief Financial Officer and Executive Director of PCCW Limited (PCCW), and a Member of PCCW's Executive Committee. Ms. Hui has also been the Group Managing Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the Trustee-Manager of HKT Trust, since September 2018, as well as an Executive Director of HKT and the Trustee-Manager since November 2011. She is a Member of HKT's Executive Committee and holds directorships in various Group companies.

Ms. Hui joined Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999. Since then, she has served the PCCW Group in various capacities, including as Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms. Hui was also the Group Chief Financial Officer of HKT from November 2011 to August 2018, an Executive Director of Pacific Century Premium Developments Limited (PCPD) from May 2018 to December 2021 and the Chief Financial Officer of PCPD from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited, Ms. Hui was the Chief Financial Officer of a listed company engaged in hotel and property investment and management.

Ms. Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Janet Yan FENG
Non-Executive Director

Ms. Feng was appointed to the Board in May 2019.

Ms. Feng serves as Senior Vice President of Trip.com Group Ltd. (NASDAQ: TCOM/HKEX: 9961) from April 2016, and is also the CEO of Ctrip Finance since October 2017 till now. Prior to this position, she was Vice Financial President of Ctrip and CFO of transportation BU since January 2013, and held a series of management positions of Finance Department since January 2004. Ms. Feng also serves Vice Chairman of Shanghai Shang Cheng Consumer Finance Corporation Limited and Independent Director of TAL Education Group (NYSE: TAL), a leading smart learning solutions provider headquartered in Beijing, China..

Prior to joining Ctrip, Ms. Feng worked as Senior Auditor in PwC China focused on listed companies and financial enterprises.

Ms. Feng received her bachelor's degree and Master of Business Administration from Shanghai Jiao Tong University.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Allen Kam Sing MA
Independent Non-Executive Director

Mr. Ma was appointed to the Board in April 2019.

Mr. Ma is currently the Executive Director and Chairman of Medera Biopharmaceutical Limited. Prior to this role, he served as the Non-Executive Chairman of Novoheart Holdings Inc., a bio-technology company with its stock listed at the Toronto Stock Exchange. Mr. Ma is also an Adjunct Professor at The Chinese University of Hong Kong.

Mr. Ma was trained as a professional accountant and made himself well known in the regional Information and Communication Technology (ICT) industry by quickly moving into the core business area of multinational corporations in charge of customer and business operations. Besides creating shareholder value and keeping his customers satisfied, his other interest in business is the study of mega trends (both social and technology) and the ecosystem required to enable its stakeholders to benefit therefrom.

Over the past 30 years, Mr. Ma has contributed to the development of Hong Kong's innovation and technology industry in various positions. Prior to his retirement in July 2016, Mr. Ma was the CEO of Hong Kong Science and Technology Parks Corporation (HKSTP). In this position, Mr. Ma redefined the vision and mission of the Corporation and laid out the corporate strategy to form three technology application platforms, expanded HK Science Park and rejuvenated Industrial Estates to address the society's development needs.

Mr. Ma is devoted to nurturing local technology talents through enriching value added services and expanding infrastructure for HKSTP's Incubation Programmes. These together have built a vibrant innovation and technology ecosystem that underpins Hong Kong's ambition to reap substantial economic benefits through re-industrialisation.

Mr. Ma has also held senior executive positions in his career with a number of multinational corporations primarily in the ICT sector, including British Telecom Plc as President, Asia Pacific; Motorola Inc. Global Telecom Solutions Sector as VP & General Manager of Asia; and C&W Hong Kong Telecom in a number of senior executive positions.

Mr. Ma holds an Master of Business Administration from the University of Toronto and is a fellow member of the Chartered Institute of Management Accountants, UK and the Association of Chartered Certified Accountants, UK. He is also a CPA, CMA, Canada.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Jeny Mei-Chun YEUNG
Independent Non-Executive Director

Ms. Yeung was appointed to the Board in May 2019, and served until September 2022.

Ms. Yeung is currently the Hong Kong Transport Services Director and a Member of the Executive Directorate of MTR Corporation Limited (MTRCL). She heads the Hong Kong Transport Services Business and has overall responsibility for MTRCL's railway transport operations and its commercial businesses in Hong Kong. These include the metro network, the Airport Express and the High Speed Rail. Ms. Yeung is currently the Chairman of Ngong Ping 360 Limited, and the Non-Executive Chairman of Octopus Holdings Limited and of two members of the Octopus Holdings Limited group.

Ms. Yeung is also an Independent Non-Executive Director of Hongkong International Theme Parks Limited, as well as a Member of the Advisory Committee on Enhancing Employment of People with Disabilities of the Social Welfare Department, and a Non-Official Member of the Immigration Department Users' Committee and the Commercial Properties Committee of The Hong Kong Housing Authority.

Before joining MTRCL, Ms. Yeung held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

Ms. Yeung is a Fellow of The Chartered Institute of Marketing and a Chartered Fellow of The Chartered Institute of Logistics and Transport in Hong Kong. She holds a Bachelor of Social Sciences degree majoring in Management Studies from The University of Hong Kong.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Jason Tsz Kiu CHIU
Independent Non-Executive Director

Mr. Chiu was appointed to the Board in September 2022.

Mr. Chiu is a renowned high technology entrepreneur in Hong Kong and was named "Global Impact Award 2022 – North Asia Honouree" by Young Presidents' Organisation, "Young Industrialist of Hong Kong 2014" by Federation of Hong Kong Industries (FHKI) and a Fellow of the Hong Kong Institute of Directors (FHKIoD).

With over 25 years of experience in technology and entrepreneurship, Mr. Chiu is the co-founder and Executive Chairman of Collectiv, a Web3/Metaverse/Blockchian technology company based in Hong Kong. Mr. Chiu is also the founder of Cherrypicks, a leading technology innovator and now a subsidiary of NetDragon Websoft Holdings Limited (HKSE: 777). Prior to founding Cherrypicks in 2000, Mr. Chiu was a Director for High Tech Strategy Practice at Deloitte Consulting in Toronto and Hong Kong.

Mr. Chiu is an active mentor and angel investor for a number of startups in Hong Kong, China, South Korea, Silicon Valley and Finland. Mr. Chiu is co-founder and Chairman of the Hong Kong Startup Council under FHKI and is passionate about building disruptive technology for people and the environment, working alongside founders and leaders in research commercialization, digital transformation and ESG impact.

Mr. Chiu also serves in innovation and Technology related roles in public, private and NGO sectors, namely: Chairman of the General Support Funding Programme (GSP) Vetting Committee of Innovation and Technology Commission (ITC); Member of the Digital Transformation Group under the Digital Economy Development Committee (DEDC) of the Innovation Technology and Industry Bureau (ITIB); Honorary President of the "Innovation and Creative Industries Council"; and Member of the Strategy Committee on Tech-enablement of the Hong Kong Council of Social Services.

In the higher education domain, Mr. Chiu serves as Council Member of University of Hong Kong (HKU), Board Chairman of HKU Technology Transfer office (Versitech), Board member of the HKU-Standard Chartered Foundation FinTech Academy and Member of the Board of Stewards of the Education University of Hong Kong Foundation. Mr. Chiu also serves in a number of youth, secondary schools and community initiatives in Hong Kong.

Mr. Chiu holds a Bachelor of Applied Science Degree with Dean's Honour List from the University of Waterloo, Canada.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Composition (continued)

Frank Yee Chon LYN
Independent Non-Executive Director

Mr. Lyn was appointed to the Board in July 2020.

Mr. Lyn is also an Independent Non-Executive Director of Standard Chartered Bank (China) Limited and SenseTime Group Inc., a leading artificial intelligence software company listed on the Hong Kong Stock Exchange.

Mr. Lyn was previously with PwC China & Hong Kong for over 30 years and has held multiple senior positions including markets leader, member of the management board, corporate finance leader and Hong Kong senior partner.

Mr. Lyn is currently a Director and Honorary Treasurer of the Helping Hand in Hong Kong and Zhaoqing Helping Hand Home for the Elderly in Zhaoqing, China.

Previously, Mr. Lyn served as a Director and Treasurer of the Community Chest, a Director of the China Mergers & Acquisitions Association (CMAA) & Chairman of CMAA's International M&A Committee, an Honorary Financial Advisor to the Shantou University Board, and was a Member of China Committee of the Hong Kong General Chamber of Commerce and the Chinese People's Political Consultative Committee of Guangxi Zhuang Autonomous Region.

Board selection process

The Nomination Committee regularly reviews the structure, size and composition of the Board and identifies individuals suitably qualified to become members of the Board. The Committee makes recommendations to the Board on the appointment of and succession planning for Directors (subject to the approval of the HKMA), having regard to the skills, knowledge, experience and diversity the candidate adds to the Board and compliance with corporate governance standards set out in the HKMA Supervisory Policy Manual CG-1 and the guidance on Empowerment of Independent Non-Executive Directors ("INEDs") in the Banking Industry in Hong Kong issued by the HKMA.

A candidate being considered for Board appointment is expected to devote adequate time to attend all Board meetings and, where relevant, Committee meetings in person. An individual who is to be appointed as an INED should also meet the independence status prior to their appointment.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Committees

(a) The Board of Directors ("the Board")

The Board is responsible for overseeing the management of the business and affairs of the Bank including the determination and approval of the Bank's financial objectives and strategic plan. It oversees the Bank's compliance with statutory and regulatory obligations, its capital and corporate structure and ensures a sound system of internal control and risk management. The Board also reviews performance in light of the Bank's strategy, objectives, corporate and business plans and budgets and determines appropriate levels for the Bank's capital and liquidity positions. The Board delegates day-to-day management of the Bank's risks to a number of committees. Risk profiles and capital related matters are reviewed by the Board on a regular basis.

The Board held five meetings in 2022.

The below Board Committees operate under the direct authority of the Board.

(b) Audit Committee ("AC")

The AC reviews, on behalf of the Board, the Bank's internal financial controls to identify, assess, manage and monitor financial risks and to review the bank's internal control systems. The AC also reviews the annual and interim financial statements, discusses matters raised by Internal Audit and the external auditors and ensures that audit recommendations are implemented accordingly.

During 2022, four AC meetings were held.

(c) Board Risk Committee ("BRC")

The BRC exercises oversight on behalf of the Board of the overall risk appetite and risk management strategy of the Bank and oversee its implementation by senior management. The BRC reviews the appropriateness and effectiveness of the Bank's risk management systems and controls. The BRC also advises and assists the Board in discharging its responsibilities for the Bank's culture-related matters, including the oversight of effective mechanisms to assess behavioural standards and whistleblowing policy.

During 2022, four BRC meetings were held.

Appendix I: Corporate Governance Report (unaudited) (continued)

Board Committees (continued)

(d) Nomination Committee ("NomCo")

The NomCo is responsible for identifying individuals suitably qualified to become members of the Board or of key senior management, and selecting, or recommending such individuals to the Board. The NomCo reviews succession plans of the Board and key senior management roles. It also reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any adjustments that are deemed necessary.

During 2022, one NomCo meetings was held.

(e) Remuneration Committee ("RemCo")

The RemCo is responsible for reviewing the framework and policies for remuneration and compliance with the applicable laws and regulatory guidelines. The RemCo ensures, on behalf of the Board, that the Company's remuneration policies are consistent with effective risk management.

During 2022, three RemCo meetings were held.

(f) Executive Committee ("EXCO")

The Board has delegated the Bank's day-to-day operations to the Executive Committee, which has then onward delegated appropriate authorities to three other Management Committees, namely, the Asset and Liability Committee, the Executive Risk Committee and the Technology Committee.

During the year, eight EXCO meetings were held.

Sub-committees of EXCO

(a) Asset and Liability Committee ("ALCO")

The ALCO, appointed by the EXCO, is responsible for the implementation of and compliance with balance sheet management policies as directed by the Board of Directors. The ALCO also ensures that, in executing the Bank's strategy and supporting the Standard Chartered Group's strategy, the Bank operates within internally approved risk appetite and external requirements relating to capital, liquidity, leverage, interest rate risk in the banking book, and meets internal and external recovery and resolution planning requirements.

During the year, fourteen ALCO meetings were held.

Appendix I: Corporate Governance Report (unaudited) (continued)

Sub-committees of EXCO (continued)

(b) Executive Risk Committee ("ERC")

The ERC, through its authority delegated by the EXCO, is responsible for the management of all Principal Risk Types ("PRTs") except for Capital and Liquidity Risk which is managed by the Asset and Liability Committee ("ALCO"). The ERC oversees effective application of the Bank's Enterprise Risk Management Framework ("ERMF"), recommends risk appetite for approval by the Board or Board Risk Committee, approves and reviews new models and risk control parameters including policies, risk exposure limits, and/or other control levers.

During the year, ten ERC meetings were held.

(c) Technology Committee ("TechCo")

The TechCo, through its authority delegated by the EXCO, is responsible for the effective management of the technology control area and the first line technology processes. The purpose of the TechCo is to ensure efficient centralisation and effective management of Technology Partner relationships to maximise contract value potential, to consolidate complexity of partner relationships and infrastructure at a centralised level and foster insight for future ecosystem development and architectural integration.

During the year, five TechCo meetings were held.

Risk appetite

The details of the Bank's risk appetite are disclosed in note 26 to the financial statements.

Major share ownership and voting rights

As at end of 31 December 2022, the Bank is majority owned by Standard Chartered Bank (Hong Kong) Limited which held 65.98% of the voting rights in the Bank. The other shareholders are HKT Limited (via Digital Access Limited, 15%), PCCW Limited (via Digital Harmony Limited, 10%), and Ctrip Financial Management (Hong Kong) Co., Limited (9.02%).

Related party transactions

All related party transactions during the year ended 31 December 2022 are disclosed in note 27 to the financial statements.

Complex structures

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

Appendix II: Regulatory Disclosures (unaudited)

The following accompanying notes are disclosures in compliance with the Banking Disclosure Rules.

(a) 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. Recognised risk transfer refers to the reduction of exposure to a particular country by an effective transfer of credit risk to a different country.

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

At 31 December 2022	*Banks* *HK$'000*	*Official Sector* *HK$'000*	*Non-bank Financial institution* *HK$'000*	*Non-financial private sector* *HK$'000*	*Total* *HK$'000*
Offshore centres	99,178	–	–	–	99,178
– of which Hong Kong SAR	99,178	–	–	–	99,178
At 31 December 2021					
Offshore centres	40,057	–	5,324	–	45,381
– of which Hong Kong SAR	40,057	–	5,324	–	45,381

Appendix II: Regulatory Disclosures (unaudited) (continued)

(b) Advances to customers analysed by industry sector

The analysis of gross advances to customers by industry sector is based on the categories used by the HKMA.

	2022 *HK$'000*	*% of collateral covered by collateral or other liabilities* *HK$'000*
Gross advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	–	–
– Property investment	–	–
– Financial concerns	–	–
– Stockbrokers	–	–
– Wholesale and retail trade	–	–
– Manufacturing	–	–
– Transport and transport equipment	–	–
– Recreational activities	–	–
– Information technology	–	–
– Others	–	–
Individuals		
– Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	–	–
– Advances for the purchase of other residential properties	–	–
– Credit card advances	5,030,434	–
– Others	94	–
Total gross advances for use in Hong Kong	5,030,528	–
Gross advances for use outside Hong Kong	1,327	–
Gross advances to customers	5,031,855	–

Appendix II: Regulatory Disclosures (unaudited) (continued)

(b) Advances to customers analysed by industry sector (continued)

	2021 *HK$'000*	*% of collateral covered by collateral or other liabilities* *HK$'000*
Gross advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	–	–
– Property investment	–	–
– Financial concerns	–	–
– Stockbrokers	–	–
– Wholesale and retail trade	–	–
– Manufacturing	–	–
– Transport and transport equipment	–	–
– Recreational activities	–	–
– Information technology	–	–
– Others	–	–
Individuals		
– Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	–	–
– Advances for the purchase of other residential properties	–	–
– Credit card advances	708,776	–
– Others	35	–
Total gross advances for use in Hong Kong	708,811	–
Gross advances for use outside Hong Kong	48	–
Gross advances to customers	708,859	–

Appendix II: Regulatory Disclosures (unaudited) (continued)

(c) *Advances to customers by geographical location*

The analysis of gross advances to customers by geographical location is in accordance with the location of counterparties, after taking into account of any recognised risk transfer.

31 Dec 2022	*Total gross loans and advances to customers HK$'000*	*Impaired advances to customers HK$'000*	*Overdue advances to customers HK$'000*	*Stage 3 credit loss provision HK$'000*	*Stage 1 & 2 expected credit loss provision HK$'000*
Hong Kong	5,030,528	11,231	10,721	10,324	76,483
Others	1,327	–	–	–	5
Total	5,031,855	11,231	10,721	10,324	76,488
31 Dec 2021					
Hong Kong	708,811	943	907	900	14,690
Others	48	–	–	–	1
Total	708,859	943	907	900	14,691

(d) *Overdue and rescheduled assets*

Overdue assets

The overdue loans and advances of the Bank are analysed as follows:

	At 31 December 2022		*At 31 December 2021*	
	HK$'000	*% of advances to customers*	*HK$'000*	*% of advances to customers*
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
— 6 months or less but over 3 months	10,710	0.21%	907	0.13%
— 1 year or less but over 6 months	11	0%	–	0%
— Over 1 year	–	0%	–	0%
	10,721	0.21%	907	0.13%

Appendix II: Regulatory Disclosures (unaudited) (continued)

(d) Overdue and rescheduled assets (continued)

Overdue assets (continued)

	At 31 December 2022 HK$'000	*At 31 December 2021 HK$'000*
Fair value of collateral held against the covered portion of overdue advances to customers		
—Covered portion of overdue advances to customers	–	–
—Uncovered portion of overdue advances to customers	10,721	907
Stage 3 expected credit loss provision against advances to customers overdue more than 3 months	10,238	866

Rescheduled assets

The rescheduled loans and advances of the Bank are analysed as follows:

	At 31 December 2022		*At 31 December 2021*	
	HK$'000	*% of advances to customers*	*HK$'000*	*% of advances to customers*
Rescheduled loans and advances to customers	46	0%	–	0%

As at 31 December2021, there were no overdue advances to banks and other financial institutions, investment securities and other assets.

As at 31 December2021, there were no rescheduled advances to customers, banks and other financial institutions, investment securities and other assets.

Appendix II: Regulatory Disclosures (unaudited) (continued)

(e) Mainland exposures

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.

	At 31 December 2022		
	On-balance sheet exposure HK$'000	*Off-balance sheet exposure HK$'000*	*Total HK$'000*
Type of counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures	–	–	–
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	–	–	–
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1	–	1
4. Other entities of central government not reported in item 1 above	–	–	–
5. Other entities of local government 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	1,795	–	1,795
Total	1,796	–	1,796
Total assets after provision	10,389,864		
On-balance sheet exposures as percentage of total assets	0.02%	0%	0.02%

Appendix II: Regulatory Disclosures (unaudited) (continued)

(e) Mainland exposures (continued)

	At 31 December 2021		
	On-balance sheet exposure HK$'000	*Off-balance sheet exposure HK$'000*	*Total HK$'000*
Type of counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures	–	–	–
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	–	–	–
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	1	–	1
4. Other entities of central government not reported in item 1 above	–	–	–
5. Other entities of local government 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	–	–	–
Total	1	–	1
Total assets after provision	6,755,890		
On-balance sheet exposures as percentage of total assets	0%	0%	0%

Appendix II: Regulatory Disclosures (unaudited) (continued)

(f) Currency risks

The Bank is exposed to foreign exchange risk, primarily the United States dollar ("USD"). The Bank's exposure to foreign currency risk at the end of the reporting period was as follows:

	2022	*2021*
	HK$'000	*HK$'000*
Financial assets		
Amount due from immediate holding company	32,829	40,057
Amount due from fellow subsidiary	179	80
Other assets	–	5,323
Financial liabilities		
Customer deposits	4,487	1,081
Amount due to immediate holding company	29,655	29,335
Amount due to fellow subsidiary	1,901	147
Other liabilities	2,494	8,335