



BANCO WELL LINK, S.A.

Annual Disclosure
for the year ended 31 December 2019

Content for Disclosure of Financial Information	Page
1. Summary of the Board of Directors' Report	3
2. The Report from the Supervisory Board	4
3. Governing Bodies and Qualified Shareholders	5-6
4. Report of Corporate Governance	7-8
5. Independent Auditor's Report on the Summary Financial Statements	9
6. Balance Sheet *	10-11
7. Memorandum Items *	12
8. Profit & Loss Account *	13-14
9. Cash Flow Statement	15-16
10. Off-balance-sheet exposures other than derivatives transactions	17
11. Derivatives transactions	18
12. Accounting Policies	18-23
13. Related Party Transactions	23-25
14. Capital	26-28
15. Credit Risk Management	29-35
16. Market Risk Management	36
17. Interest Risk Management	37
18. Operational Risk Management	38
19. Foreign Exchange Risk	38
20. Liquidity Risk	39-40

* Audited

1. Summary of the Board of Directors' Report

The Directors of Banco Well Link, S.A. (the "Bank") present their report of the Bank for the year ended 31 December 2019.

Business and Management Report

Challenges and opportunities coexisted in 2019. Well Link Bank (WLB) upholds a pragmatic, enterprising and prudent stance, and we have achieved fruitful business results. As of December 31, 2019, the Bank's total assets amounted to MOP 10.09 billion and the value of total deposits were MOP 7.66 billion, representing respectively year-on-year growths rates of 116% and 149.1%, with remarkable performance in the development of other businesses as well. The Bank recorded a net interest income of MOP 142 million in 2019, corresponding to a growth rate of 137.1% over the previous year and a pre-tax profit of MOP 58.473 million.

The year 2019 marks the second year of the Bank's equity acquisition, and the year in which the Bank expanded its scale and business variety, gaining a firm foothold in the Macao market. With strong support of all sectors of the community, and the dedicated efforts of the Bank's management and staff, WLB has made considerable progress in various businesses. During the year, WLB opened four new branches, covering the major areas of the Macao SAR, continued to develop boutique community bank outlets serving Macao citizens; formally launched credit card products supporting UnionPay and VISA; and strengthened cooperation between Hong Kong Well Link Securities and Taiping Life Insurance (Macao) with the introduction of "Well Link Connect" and insurance product distribution services. We are committed to providing customers with efficient, convenient and diversified financial services.

Leveraging on Macao's "One Centre, One Platform", the Bank continues to actively participate in the financial development of the "Belt and Road Initiative" and the Greater Bay Area of Guangdong, Hong Kong and Macao, in preparation for the early and pilot implementation of RMB cross-border business. In 2019, Well Link Bank was honored to participate in the first Renminbi government bond issuance project in Macau by the People's Republic of China Ministry of Finance as a joint bookrunner. The bank has been recognized and supported by the regulatory authority, and accumulated valuable experience. Meanwhile through the establishment of multi-level cooperative relations with domestic and foreign financial institutions, Well Link Bank, at the same time of developing its own business, has also promoted the healthy and stable development of Macao's local financial market, contributing to the construction of a regional financial assets trading platform as well as the financial services platform between China and Portuguese Speaking Countries.

In 2020, WLB will continue to promote various developments and reforms. With the strength of fintech, WLB will further improve the coverage and intelligence of local retail network, enhance the comprehensive financial services capacity, expand the business network and channels in the Greater Bay Area, and better fulfil its "bridge spirit" for customers by "building roads and bridges" and connecting the world, in order to play its due role in the development of Macao's characteristic financial industry and building a regional financial cooperation platform.

1. Summary of the Board of Directors' Report (continued)

Results and appropriations

According to the laws and the bank's Articles of Associations, the Board of Directors proposed to the shareholders that the net profit of 56,722,138 patacas (fifty six million seven hundred twenty two thousand one hundred thirty eight patacas) completed on December 31, 2019 is used in the following ways:

- 1) Legal reserve: 11,344,428 patacas, consistent with 20% of the net profit
- 2) Retained income: 45,377,710 patacas.

2. The Report from the Supervisory Board

Pursuant to the applicable legal and statutory provision and the Articles of Association, the Supervisory Board hereby submits its activity report and opinion on the Board of Directors' Report and Accounts of **BANCO WELL LINK, S.A.**, for the Financial Year ended 31 December 2019.

The Board of Directors' Report outlines in a clear manner the economic situation and progress of the Bank's activity during the 2019 Financial Year.

We have examined the regularity of the books and accounting records and are not aware of any non-compliance with the law and the articles of association.

As a result of our examination, we believe the Board of Directors' Report gives a fair view of the Bank's activity and the Accounts comply with the law and statutory provisions.

Based on such examination and conclusions, we are of the opinion that:

- 1. The 2019 Audited Financial Statement performed by Ernst & Young should be approved, and considered to be appropriate for submission to the Shareholders' Meeting for approval;
- 2. The proposal relating to the appropriation of profits should be approved.

Macau, 27 March 2020

3. Governing Bodies and Qualified Shareholders

Chairing Board of Shareholders' meeting :

Chairman : Xu Chujia

Secretary : Yeung Chi Sing

Secretary : Xiang Fei Appointed on 29.03.2019

Secretary : Wang Lu Resigned on 28.03.2019

Board of Directors :

Chairman : Zhang Shengman

Directors : Xu Chujia

Ngan Yuen Ming

Chen Hua

Paulo Jorge Fernandes Franco

Hon Wai Ming

So Shing Shun

Tse Yung Hoi

Fang Hongguang Appointed on 17.09.2019

Du Miaomiao

Artur Jorge Teixeira Santos

Huang Ruisheng Appointed on 16.07.2019

Zhang Chen Resigned on 28.03.2019

Wang Lu Resigned on 12.11.2019

Executive Committee :

Du Miaomiao

Artur Jorge Teixeira Santos

Huang Ruisheng Appointed on 16.07.2019

Zhang Chen Resigned on 28.03.2019

Wang Lu Resigned on 12.11.2019

Supervisory Board :

Chairman : Ng Man Kung

Members : Vong Hin Fai

CSC & Associados - Sociedade de Auditores (respresented by Mok Chi Meng)

Company Secretary : Xiang Fei

**Institutions in which have holdings in excess of 5% in the share capital,
or over 5% of their own funds:**

	<i>Ordinary shares of MOPL,000 each</i>	
	<i>Total number of ordinary shares</i>	<i>% of total issued shares</i>
Europ Assistance (Macau) – Serviços de Assistência Personalizados, Lda.	400	25%

Qualified Shareholders:

Shareholders with a qualified holding as of 31 December 2019:

Well Link Holdings Limited
Kingyin (Macau) Holdings Limited
Trillion Investment Company Limited
Shengman Investments Limited

4. Report of Corporate Governance

The management of the Bank is entrusted to the following governing bodies:

Chairing Board of Shareholders' meeting

The Chairing Board of Shareholders' meeting is composed of shareholders holding at least one hundred shares of the company and its deliberations, when taken in accordance with law and statutes, shall be mandatory for all, regardless the number of shares they owned.

The Chairing Board of Shareholders' meeting is ordinarily held at the end of March of each year in order to discuss the report and accounts of the Board of Directors and the Supervisory Board Report of the previous year, to carry out the elections when necessary and discuss any other matters required by law.

Board of Directors

The administration and management of all the affairs and interests of the Bank is supervised by Board of Directors which shall be composed of no less than three members. The Board main responsibilities, among others, are as follows:

- Coordinate the activities of the Bank;
- Establish the organization units of bank and approve their regulations;
- Deliberate on the establishment of an Executive Committee, which will consist of not less than three members, define competence, powers and way of operation and delegating it the management of the business and the use of corresponding powers;
- Prepare accounts that must be submitted to the Board of the General Meeting and submit to the Supervisory Board all documents required by law; and
- Perform all acts aimed in achieving the Bank's activities and all other duties assigned by the Status.

Supervisory board

The Supervisory board comprises of three (3) members, in which one (1) should be a registered auditor. The Supervisory board responsibilities, among others, are as follows:

- Closely monitor the management of the bank;
- Ensure compliance with the laws, regulations and articles of the association;
- Examine the books and accounting records;
- Fulfill other obligations imposed by law and the articles of the association; and
- Annually prepare a Supervisory Report and give opinion on the Board of Directors' Report, Balance Sheet, Profit and Loss Account, and the proposed appropriation of profits by the Board of Directors.

4. Report of Corporate Governance(continued)

Executive Committee

The Board of Directors, through its Executive Committee (“EC”), is responsible for establishing and maintaining an adequate and effective internal control system and establishment and maintenance of risk management system. The EC was also granted such powers and authorities necessary for conducting and managing the Bank’s normal banking and related business activities.

Establishing and maintaining an adequate and effective internal control system implies not only defining the system’s underlying principles and objectives, which must be incorporated into the Bank’s strategy and policies, but also making sure that they are complied with by all employees, and that at all times the Bank has the necessary competence and resources to conduct its activity in strict compliance with the internal control system.

The EC is also responsible for the establishment and maintenance of a solid risk management system, which is within the framework of an adequate overall control environment. Alongside of efficient information and communication system and an effective monitoring process, this guarantees the adequateness and effectiveness of the Bank’s internal control system. The EC defines the objective risk profile, establishes the global and specific limits for exposures, and approves the procedures required to monitor these exposures, thus, ensuring that the established limits are complied with.

The EC meets regularly to review the management and performance of the Bank.

5. Independent Auditor's Report on the Summary Financial Statements

To the shareholders of Banco Well Link, S.A.

(Incorporated in Macao with limited liability by shares)

We have audited the financial statements of Banco Well Link, S.A. for 2019 in accordance with Auditing Standards and Technical Auditing Standards of the Macao Special Administrative Region. In our auditor's report dated 30 March 2020, we expressed an unmodified opinion on these financial statements.

The audited financial statements referred to above comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The accompanying summary financial statements set out on pages 10 to 14 prepared by the management is a summary of the audited financial statements. In our opinion, the summary financial statements are consistent, in all material respects, with the audited financial statements.

For a better understanding of the financial position and financial performance of Banco Well Link, S.A. and the scope of our audit, the summary financial statements should be read in conjunction with the audited financial statements and our independent auditor's report.

BAO King To
Registered Auditor
Ernst & Young

Macao
30 March 2020

6. Balance Sheet

BANCO WELL LINK, S.A.
Balance sheet as at 31 December 2019
(Expressed in Macau Patacas)

ASSETS	GROSS ASSETS	PROVISION DEPRECIATION AND AMORTIZATION	NET ASSETS
CASH	92,731,869.57	-	92,731,869.57
DEPOSIT WITH AMCM	124,921,309.87	-	124,921,309.87
VALUES FOR COLLECTION	11,572,113.12	-	11,572,113.12
DEPOSIT ON DEMAND WITH LOCAL CREDIT INSTITUTIONS	81,510,770.04	-	81,510,770.04
DEPOSIT ON DEMAND WITH FOREIGN CREDIT INSTITUTIONS	88,778,423.93	-	88,778,423.93
OTHER VALUES	95,116.72	-	95,116.72
LOANS AND ADVANCES	3,058,051,468.86	1,611,219.20	3,056,440,249.66
PLACEMENTS WITH LOCAL CREDIT INSTITUTIONS	1,147,652,800.00	-	1,147,652,800.00
DEPOSIT AT CALL AND AT TERM ABROAD	2,749,603,600.00	-	2,749,603,600.00
SHARES, BONDS AND OTHER SECURITIES	2,365,401,536.57	-	2,365,401,536.57
DEBTORS	17,516,639.11	-	17,516,639.11
OTHER APPLICATIONS	200,000,000.00	-	200,000,000.00
INVESTMENTS	100,000.00	-	100,000.00
EQUIPMENTS	14,888,621.70	3,637,045.63	11,251,576.07
DEFERRED EXPENDITURES	39,004,693.51	9,732,841.48	29,271,852.03
INSTALLATION EXPENDITURES	30,628,876.88	11,043,547.27	19,585,329.61
CONSTRUCTIONS IN PROGRESS	9,532,535.46	-	9,532,535.46
INTERNAL ACCOUNTS	86,862,468.39	-	86,862,468.39
TOTAL	10,118,852,843.73	26,024,653.58	10,092,828,190.15

6. Balance Sheet (continued)

BANCO WELL LINK, S.A.
Balance sheet as at 31 December 2019 (continued)
(Expressed in Macau Patacas)

LIABILITIES	SUB-TOTAL	TOTAL
DEPOSITS ON DEMAND	1,123,972,949.60	-
FIXED TERM DEPOSITS	4,979,384,446.49	-
PUBLIC SECTOR DEPOSITS	1,559,908,136.48	7,663,265,532.57
BORROWING FROM LOCAL CREDIT INSTITUTIONS	663,787,600.00	-
FOREIGN CURRENCY LOANS	176,687,990.30	-
CHEQUES AND PAYMENT ORDERS	79,539.03	-
CREDITORS	1,202,998.38	-
OTHER LIABILITIES	1,551,541.51	843,309,669.22
INTERNAL ACCOUNT	-	144,876,936.92
PROVISION FOR OTHER RISKS AND CHARGES	-	31,670,000.00
CAPITAL	1,200,000,000.00	-
LEGAL RESERVE	57,089,518.13	-
STATUTINARY RESERVE	-	-
OTHER RESERVES	13,195,368.23	1,270,284,886.36
RESULTS CARRIED FORWARD	82,699,027.85	-
PROFIT FOR THE YEAR	56,722,137.23	139,421,165.08
TOTAL		10,092,828,190.15

7. Memorandum Items

BANCO WELL LINK, S.A.
Balance sheet as at 31 December 2019 (continued)
(Expressed in Macau Patacas)

MEMORANDUM ITEMS	AMOUNT
VALUES HELD IN DEPOSIT	-
VALUES HELD FOR COLLECTION	21,005,121.11
VALUES HELD AS GUARANTEE	2,848,960,428.78
BANK GUARANTEES	52,099,069.18
LETTER OF CREDIT ISSUED	3,984,071.09
ACCEPTANCES OUTSTANDING	-
FORWARDS PURCHASE	-
FORWARDS SALES	-
OTHER MEMORANDUM ITEMS	491,537,241.27

8. Profit & Loss Account

BANCO WELL LINK, S.A.
Operating Profit and Loss Account
For the year ended 31 December 2019
(Expressed in Macau Patacas)

DEBIT	AMOUNT	CREDIT	AMOUNT
INTEREST EXPENSES	146,874,602.44	INTEREST INCOME	288,720,316.96
STAFF COSTS:		BANKING SERVICE INCOME	26,362,063.15
MANAGEMENT REMUNERATION	14,407,054.28	OTHER BANKING SERVICES INCOME	1,525,206.87
EMPLOYEES REMUNERATION	34,477,094.28	SECURITIES AND FINANCIAL INVESTMENT INCOME	17,977,207.74
SPECIAL EXPENSES	2,255,612.25	OTHER BANKING INCOME	232,170.82
OTHER STAFF COSTS	664,561.24	INORGANIC PROVISIONS	95,047.00
THIRD PARTY SUPPLIES	1,533,895.50	OPERATING LOSS	-
THIRD PARTY SERVICES	43,649,386.59		-
OTHER BANKING EXPENSES	10,531,877.85		-
INDUSTRIAL AND OTHER TAXES	198,600.00		-
OTHER EXPENSES	716,296.84		-
DEPRECIATION AND AMORTIZATION	10,248,926.84		-
PROVISIONS FOR OTHER RISKS AND CHARGES	10,881,219.20		-
OPERATING PROFIT	58,472,885.23		-
TOTAL	334,912,012.54	TOTAL	334,912,012.54

8. Profit & Loss Account (continued)

BANCO WELL LINK, S.A.
Profit and Loss Account
For the year ended 31 December 2019
(Expressed in Macau Patacas)

DEBIT	AMOUNT	CREDIT	AMOUNT
OPERATING LOSS	-	OPERATING PROFIT	58,472,885.23
PRIOR YEAR LOSS	-	PROFIT YEAR GAIN	-
EXCEPTIONAL LOSS	-	EXCEPTIONAL PROFIT	-
COMPLEMENTARY (CORPORATE) INCOME TAX	1,750,748.00	PROVISIONS UTILISED	-
NET PROFIT	56,722,137.23	NET LOSS	-
TOTAL	58,472,885.23	TOTAL	58,472,885.23

CHIEF EXECUTIVE OFFICER

Du Miaomiao

EXECUTIVE DIRECTOR

Huang Ruisheng

Macau, 30 March 2020

9. The Cash flow statement

CASH FLOWS FROM OPERATING ACTIVITIES	MOP
Profit/(loss) before tax	58,472,886
Adjustments for:	
Depreciation	10,248,927
Amortisation of premium on securities investments	-
Loss on disposal of items of plant and equipment	-
Gain on disposal of debt investments at fair value	(17,745,688)
Provision for doubtful loans and advances	10,881,219
Exchange adjustments	14,144,027
	<hr/> 76,001,371
Increase in minimum statutory deposits with AMCM	(37,399,903)
Increase in loans and advances	(1,012,778,443)
Increase in placements with local credit institutions with original maturity beyond three months	(303,647,600)
Increase in placements with foreign credit institutions with original maturity beyond three months	(248,536,035)
Increase in interest receivables and other assets	(14,849,968)
Increase in deposits on demand	769,421,043
Increase in fixed term deposits	4,474,327,696
Increase in other liabilities	4,325,232
Increase in other payables	90,361,885
	<hr/> 3,797,225,278
Cash generated from operations	(4,004)
	<hr/> 3,797,221,274
Net cash flows from operating activities	
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchases of items of plant and equipment	(35,671,608)
Purchases of debt investments	(2,654,189,938)
Proceeds from disposal of debt investments	686,142,293
	<hr/> (2,003,719,253)
Net cash flows used in investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of shares	-
	<hr/> -
Net cash flows from financing activities	

9. The Cash flow statement(continued)

NET INCREASE IN CASH AND CASH EQUIVALENTS	1,793,502,021
Cash and cash equivalents at beginning of year	1,864,524,553
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>3,658,026,574</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash	92,731,870
Deposits and clearing balances with AMCM with original maturity at or within three months	124,921,310
Deposits on demand with local credit institutions with original maturity at or within three months	170,289,194
Placements with local credit institutions with original maturity at or within three months	983,705,200
Placements with foreign credit institutions with original maturity at or within three months	2,362,412,000
Less: Minimum statutory deposits with AMCM	<u>(76,033,000)</u>
Cash and cash equivalents as stated in the statement of cash flows	<u>3,658,026,574</u>

10. Off-balance sheet exposures other than derivative transactions

At 31 December 2019, the Bank had the following contingent liabilities and outstanding commitments:

(a)

<i>Off balance sheet items outstanding (contract amount) at the balance sheet date</i>	
	<i>(in MOP)</i>
Bank guarantees issued	52,099,069
Letter of Credit	3,984,071
Undrawn facilities	491,537,241

AMCM requires that general provision be maintained at 1% of the endorsements and performance guarantees on behalf of customers. Specific provisions on contingent credit are made when there is evidence that endorsement and performance guarantees on behalf of customers are not fully recoverable.

(b) *Operating lease commitments*

At 31 December 2019, the Bank had future aggregate minimum lease payments under operating leases as follows (in MOP):

Within one year	17,364,821
In the second to fifth years, inclusive	50,584,386
After five years	31,754,478
	<hr/>
	99,703,685

11. Derivatives

As at 31 December 2019, the notional amount of interest-bearing off -balance sheet financial instruments is as follows:

	<i>Notional amount MOP</i>	<i>Credit risk weighted amount MOP</i>
Foreign currency swaps	-	-
Foreign exchange contract	-	-
	<u> </u>	<u> </u>

The notional amounts of these contracts indicate the volume of transactions outstanding and do not represent amounts at risk.

12. Accounting Policies

(a) *Income recognition*

Interest income is recognised in the income statement on an accrual basis, except in the case of doubtful loans and advances where interest is credited to a suspense account that is netted off in the balance sheet against the relevant balances.

Fee and commission income is recognised in the period it is earned. Fees that are charged to cover the costs of a continuing service to, or risk borne for the customer, or are interest in nature, are recognised on a time proportion basis over the relevant period.

(b) *Shares, bonds and other securities*

Ordinary shares are revalued at the lower of acquisition cost or fair market value.

Bonds and other securities have fixed or determinable payments and fixed maturity and the Bank have the positive intention and ability to hold them to maturity. Bond and other securities are included in the balance sheet at the acquisition cost adjusted for the amortisation of premium or discount arising on acquisition. Quoted securities are revalued at the quoted price if lower than the acquisition cost.

12. Accounting Policies (continued)

(c) *Financial investments*

Investment in subsidiary

Subsidiary is a company controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities. Investment in subsidiary are carried at cost less any provision for permanent diminution in value. The result of the subsidiary is accounted for to the extent of dividends received and receivable.

Investment in associate

An associate is a company in which the Bank holds, directly or indirectly, less than 50% but 20% or more of the voting power of the Bank. While the Bank does not exercise control, the investment is of a permanent nature and is held as a result of the Bank's activities being similar or complementary to those of the Bank. Investment in associate is carried at cost less provision. The result of associate is accounted for the extent of dividends received and receivable.

(d) *Loans and advances to customers*

- (i) Loans and advances to customers are subject to general provisions and specific provisions for bad and doubtful debts.
- (ii) All advances on which principal or interest have been overdue for more than three months are classified as non-performing in accordance with the requirements of the AMCM.

Specific provisions are made in accordance with the requirements set out under Notice No. 18/93 issued by AMCM against the difference between the carrying amounts of loans and advances and the recoverable amounts. Recoverable amounts include the estimated cash received from the guarantor or from the disposal of loan collaterals. General provision is maintained at not less than 1% of the aggregate value of loans and advances that are not overdue for more than three months at the date of reporting period. Changes in the provisions are recognised in profit or loss. Where the loans and advances have no reasonable prospect of recovery, the balance is written off. An amount recovered from loans and an advance that has been written off will be recognised as income in profit or loss.

- (iii) Interest income from non-performing loans is no longer accrued but recorded in an off-balance sheet account. An amount subsequently received will first be offset against the principal of outstanding loans and advances. Only when the principal of loans and advances is fully repaid can the amount receive in excess be recognised as interest income.

12. Accounting Policies (continued)

- (iv) In the recovery of non-performing loans, the Bank may take repossession of collateral assets through court proceedings or by the borrowers' voluntary delivery of possession. In order to achieve an orderly realisation, the collateral assets acquired in exchange for advances are reclassified to other accounts. The assets acquired are recorded at the carrying amount of the advances derecognised at the date of exchange. Provision for impairment losses, if necessary, is the difference between the estimated fair value of the assets and the carrying amount of the assets at acquisition.

(e) Equipment and other fixed assets

Equipment and other fixed assets are stated at cost less depreciation. Depreciation is calculated to write off the cost of the fixed assets on a straight-line basis over their estimated useful lives as follows:

- Furniture, fixture and equipment	5 to 10 years
- Computer equipment	4 years
- Motor vehicles	5 years
- Leasehold improvements	6 years
- Computer software	3 to 10 years
- Installation expenditures	3 years

(f) Deferred expenses

Deferred expenses include installation expenditures on the Bank's leasehold properties and computer software acquired and are amortized over three years on a straight-line basis. Unaudited information (continued)

(g) Translation of foreign currencies

Foreign currency transactions during the year are translated into Macau Patacas at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Macau Patacas at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Macau Patacas using the foreign exchange rates ruling at the transaction dates. 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 determined.

12. Accounting Policies (continued)

(h) *Operating leases*

Where the Bank has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(i) *Cash and Cash equivalents*

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(j) *Off balance sheet financial derivatives used for asset and liability management purposes*

The interest arising from the interest rate derivative instruments is recognised in the income statement as the interest income or expense has received or receivable or paid and payable during the period. The gain or loss arising from the settlement and on retranslation of foreign exchange derivative instruments is recognised in profit or loss in the period in which they arise. The financial derivative instruments are recorded off balance sheet.

(k) *Income tax*

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, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rate enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

12. Accounting Policies (continued)

(l) *Related parties*

For the purposes of these financial information, related parties include:

- (i) Any person or any close family member of that person if that person:
 - (1) has control or joint control over the credit institution;
 - (2) has significant influence over the credit institution; or
 - (3) holds a qualifying holding in the credit institution;
 - (4) is a member of the board of directors or supervisory board of the credit institution or of a parent of the credit institution; or
 - (5) is a member of the key management personnel, other than a member of the board of directors or supervisory board as identified in sub-item (4) above, of the credit institution or of a parent of the credit institution.
- (ii) Any entity if any of the following conditions applies:
 - (1) That entity and the credit institution are members of the same group (e.g. parent, subsidiary and fellow subsidiary).
 - (2) That entity holds a qualifying holding in the credit institution.
 - (3) That entity is an associate or joint venture of the credit institution (or an associate or joint venture of a member of a group of which the credit institution is a member).
 - (4) The credit institution is an associate or joint venture of that entity (or an associate or joint venture of a member of a group of which that entity is a member).
 - (5) That entity and the credit institution are both joint ventures of the same third party.
 - (6) That entity is a joint venture of a third entity and the credit institution is an associate of that third entity.
 - (7) The credit institution is a joint venture of a third entity and that entity is an associate of that third entity.
 - (8) That entity is controlled or jointly controlled by a person identified in (i).

12. Accounting Policies (continued)

- (9) A person identified in (i)(1) has significant influence over that entity or is a member of the key management personnel of that entity (or of a parent of that entity).
- (10) A person identified in (i)(4) is a member of the key management personnel of that entity (or of a parent of that entity).

13. Related party transactions

(a) Policy for lending to related parties

A number of transactions are entered into with related parties in the normal course of business. These include deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates.

The Bank's lending policy to related parties are as follows:

- (i) The Bank shall not incur an exposure to any person, individual or corporate, which holds, directly or indirectly, a qualifying holding in it, or to companies in which this person has direct or indirect control, which at any time in the aggregate exceeds 20% of its own funds;
- (ii) The aggregate exposure of all holders of qualifying holdings and companies referred to in (i) may not exceed at any time, 40% of the Bank's own funds;
- (iii) The operations referred to in (i) and (ii) require approval from all the members of the Board of Directors and a favourable opinion from the Supervisory board, and the respective terms shall be notified to AMCM within ten (10) days counted from the date of the respective approval;
- (iv) The Bank shall not incur any exposure in the following cases and above the following limits:
 - (1) against the security of its own shares;
 - (2) to the members of the Board of Directors and Supervisory board, their spouses so long as they are not judicially separated or married under the regime of separate property, children, parents, step-children, step-parents, sons-in-law, daughters-in-law, parents-in-law or companies under their control or to which Board of Directors or Supervisory board they belong, to an aggregate amount exceeding 10% of own funds;

13. Related party transactions (continued)

- (3) to each of the entities mentioned in (2), to an amount exceeding 1% of own funds; and,
- (4) to each employee, for an amount which exceeds his or her total net annual income.
- (v) The exposure referred to in above (iv) (2) and (iv) (4) may exceed the limits set therein when the credit is intended for home purchase by the respective beneficiary, collateralized by a real guarantee which has been evaluated by an independent value and registered in the name of the Bank.

The volume of related party transactions, outstanding balances at the year-end and related income and expense for the year are as follows:

(b) Transactions with key management personnel

Key management personnel of the Bank

In addition to the transactions and balances disclosed elsewhere in these financial information, the Bank provided commercial banking services to key management personnel of the Bank. The commercial banking services 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.

(c) Transactions with group companies

During the year, the Bank entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and guarantees issued. The transactions were priced at the relevant market rates at the time of each transaction.

<i>The amount of related party transactions during the year is set out below</i>		<i>(in MOP)</i>
Directors:		
Interest expenses	<u>(370,595)</u>	
Other related parties		
Interest income	1,409,991	
Interest expenses	(158,923)	
Fee and commission income	<u>1,136,231</u>	

13. Related party transactions (continued)

The outstanding amounts of related party transactions as at the end of the reporting period are set out below *(in MOP)*

Assets:

Placements with foreign credit institutions	-
Sundry Investments	-
Loans Granted	-
Sundry Debtors	-
Deposits on demand with foreign credit institutions	-
Interest receivables	-

Liabilities:

Fixed term deposits	-
Fixed customers deposits	
Deposits on demand	
Shareholders	1,425,680
Directors	2,116,058
Other related parties	134,825,367
Interest payables	
Directors	486
Other related parties	708

14. Capital

(a) *Share capital*

Authorised, issued and fully paid (in MOP):

1,200,000 shares of MOP1,000 each	<u>1,200,000,000</u>
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(b) *Capital management*

The Bank's policy is to maintain a strong capital base to support the development of the business and to meet the AMCM's statutory capital requirement. In addition to meeting the requirements of AMCM, 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 to shareholders. This is achieved by allocating capital to various business areas and business units on the basis of specific risk profiles and by a constant measurement and monitoring of the performance. Capital and its allocation are therefore extremely important for the strategy, since capital is the object of the return expected by investors on their investment in the Bank, and also because it is a resource that has to comply with regulatory provisions.

The Bank's approach for the calculation of regulatory capital and capital charges (credit risk, market risk and operational risk) are in accordance with the AMCM rule. The Bank has an internal capital assessment process to ensure sufficient capital is available to absorb both regulatory capital requirements and any additional material risks inherent in the Bank's present and future business activities. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Bank, to the extent that these do not conflict with the directors' fiduciary duties towards the Bank.

Capital is managed dynamically and the Bank prepares the financial plan, monitors capital ratios for regulatory purposes on a monthly basis and anticipates the appropriate steps required to achieve its goals. 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.

14. Capital (continued)

(b) Capital management (continued)

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.

(i) Own funds

The Bank's own fund as of 31 December 2019 amounted to MOP 1,384.7 million. The value of own funds is the sum of core capital and supplementary capital less the amounts subject to deductions (if there were any).

<i>Component of own fund is as follows</i>	<i>(in MOP)</i>
Share capital	1,200,000,000
Legal reserve	57,089,518
Other reserve	13,195,368
Retained earnings	82,699,028
Total core capital	<u>1,352,983,914</u>
General provision/ Total supplementary capital	31,670,000
Total amount of own funds	<u><u>1,384,653,914</u></u>

14. Capital (continued)

(b) Capital management (continued)

(i) Own funds (continued)

The Bank's core capital consists of the following:

- Paid-up share capital pertains to 1,200,000 equity shares of authorised, issued and fully paid shares. The Bank does not have any other capital instruments except for these equity shares as qualifying capital.
- Legal reserve is a non-distributable reserve set aside from profit each year in accordance with FSA which provides that an amount of not less than 20 % of the profit after taxation be set aside each following year until the reserve reaches 50 % of the Bank's issued share capital and thereafter 10 % of the profit after taxation be set aside each year until the reserve is equal to the Bank's issued share capital.
- Other reserve pertains to the one-time transfer of retained profits in the prior year.
- Retained earnings are the accumulated undistributed profits, net of legal reserves set aside in accordance with FSA. Profit for the year pertains to the income earned for the period.

The Bank's supplementary capital represents the statutory reserves on general provision calculated in accordance with AMCM rules (see Note 5 d (ii)).

(ii) Capital Adequacy Ratio

As of 31 December 2019, the Bank has maintained a Capital Adequacy Ratio of 23.01% against AMCM minimum regulatory requirement of 8%. The Capital Adequacy Ratio is calculated with the Bank's own fund expressed as a percentage of the sum of its "credit risk-weighted assets", "market risk-weighted exposures" and "operational risk-weighted exposures". The capital solvency ratio is calculated in accordance with Notice no. 011/2015-AMCM.

15. Credit risk management

Credit risk is the risk of financial loss to the Bank when the counterparty fails to meet the contractual obligations, and arises principally from the Bank's loans and advances to customers and investments in debt securities and liquid securities. The Bank has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of loans and advances to customers, individual credit evaluations are performed on all customers requiring credit. These evaluations focus on the customer's past history of making payments and current ability to pay, taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Bank obtains collateral from customers.

Loans and advances to customers on which principal or interest have been overdue are classified as past due in accordance with the requirement set-out under Notice no. 18/93-AMCM. Past due accounts are further classified into groups based on the number of days past due as follows:

- Group I - up to 3 months;
- Group II - over 3 months and less than or equal to 12 months;
- Group III- over 12 months and less than or equal to 18 months;
- Group IV- over 18 months.

Loans and advances to customers are subject to general provisions and specific provisions for bad and doubtful debts in accordance with Notice no. 18/93-AMCM as follows:

- (i) At the end of each quarter, a minimum specific provision shall be set up for past due accounts, based on their respective balances net of the realizable value of any existing and duly formalized tangible collateral, under Group II, Group III and Group IV at 40%, 80% and 100%, respectively.
- (ii) General provision is maintained at not less than 1% of the aggregate value of loans and advances that are not overdue for more than three months at the date of reporting period.

15. Credit risk management (continued)

Changes in the provisions are recognized in profit or loss. Where the loans and advances have no reasonable prospect of recovery, the balance is written off. An amount recovered from loans and advances that have been previously written off will be recognized as income in profit or loss.

As of 31 December 2019, amount of overdue loans and advances (more than 3 months) is MOP 3,752,517, the specific provision was amounted to MOP 1,611,219. A general provision was amounted to MOP 31.67 million, which meets the minimum reserve requirement by AMCM.

Investment in debt securities and liquid securities are quoted in a recognised stock exchange and with counterparties that have high credit ratings. Furthermore, transactions involving derivative financial instruments are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations, thus, no impairment loss is recognized as of 31 December 2019.

15. Credit risk management (continued)

(a) Geographical analysis of loans and advances to customers

<i>Region</i>	<i>Gross loans and advances to customers MOP</i>	<i>Overdue loans and advances (more than 3 months) MOP</i>
Macau SAR	136,836,045	3,752,517
Hong Kong	1,943,597,131	-
Cayman Islands	30,297,246	-
China, People's Republic	285,096,786	-
Taiwan	547,708	-
Virgin Islands	348,924,036	-
Samoa	309,000,000	-
Total	3,054,298,952	3,752,517

15. Credit risk management (continued)

The geographical analysis is classified by location of the borrowers after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party situated in an area different from the counterparty.

(b) *Geographical analysis of investments in debt and other securities*

<i>Region</i>	<i>Gross Investments MOP</i>
Hong Kong SAR	1,213,162,679
Of which:	
– Banks	990,367,351
– Government/Public sectors	-
– Others	222,795,328
United Kingdom	231,595,384
Of which:	
– Banks	231,595,384
– Government/Public sectors	-
– Others	-
Netherlands	11,258,957
Of which:	
– Banks	-
– Government/Public sectors	-
– Others	11,258,957
China	888,784,517
Of which:	
– Banks	777,953,218
– Government/Public sectors	23,229,010
– Others	87,602,289
Macau SAR	20,600,000
Of which:	
– Banks	-
– Government/Public sectors	-
– Others	20,600,000
Total	2,365,401,537

15. Credit risk management (continued)

(c) *Industry distribution of exposures*

The following information concerning the further analysis of loans and advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors.

	<i>Gross loans and advances to customers (MOP)</i>	<i>Overdue loans and advance (more than 3 months) (MOP)</i>
Wholesale and retail business	61,553,350	-
Financial Investment	1,573,482,966	-
Manufacturing	51,905,121	-
Trading	34,964,807	-
Rental and business services	45,092,966	-
For other personal use	1,287,299,742	3,752,517
	<u>3,054,298,952</u>	<u>3,752,517</u>

15. Credit risk management (continued)

(d) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period as at 31 December 2019 to the contractual maturity date:

	<i>Maturity date of financial instruments</i>						<i>Total</i>
	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	
	MOP	MOP	MOP	MOP	MOP	MOP	MOP
Assets							
Cash and short term funds	92,731,870	-	-	-	-	-	92,731,870
Deposits with credit institutions	295,210,504	-	-	-	-	-	295,210,504
Placements with credit institutions	-	3,637,711,200	144,799,200	5,746,000	309,000,000	-	4,097,256,400
Loans and advances	192,223,620	196,126,116	208,213,717	1,080,895,650	1,314,088,132	39,070,180	3,030,617,415
Debt investments	-	-	-	-	23,229,010	2,342,172,527	2,365,401,537
Interest receivables	943,334	38,696,481	19,801,314	4,061,921	98,626	-	63,601,676
Other assets	12,243,070	-	3,920,096	45,320	166,860	16,061,560	32,436,906
Total financial assets	<u>593,352,398</u>	<u>3,872,533,797</u>	<u>376,734,327</u>	<u>1,090,748,891</u>	<u>1,646,582,628</u>	<u>2,397,304,267</u>	<u>9,977,256,308</u>

15. Credit risk management (continued)

(e) Analysis of assets and liabilities by remaining maturity (continued)

	<i>Maturity date of financial instruments</i>						<i>Total</i> MOP
	<i>On demand</i> MOP	<i>Less than</i> <i>3 months</i> MOP	<i>3 to 6</i> <i>months</i> MOP	<i>6 to 12</i> <i>months</i> MOP	<i>1 to 5</i> <i>years</i> MOP	<i>More than</i> <i>5 years</i> MOP	
Liabilities							
Deposits on demand	1,300,660,940	-	-	-	-	-	1,300,660,940
Fixed term deposits	2,897,397	2,132,483,434	1,786,785,513	2,946,570,205	334,213,634	130,000	7,203,080,183
Interest payables	68,996	36,665,473	31,383,021	23,278,387	15,494,527	4,701	106,895,105
Other liabilities	424,846	8,167,845	190,550	1,214,452	2,136,232	-	12,133,925
Total financial liabilities	<u>1,304,052,179</u>	<u>2,177,316,752</u>	<u>1,818,359,084</u>	<u>2,971,063,044</u>	<u>351,844,393</u>	<u>134,701</u>	<u>8,622,770,153</u>
Net liquidity gap	<u>(710,699,781),</u>	<u>1,695,217,045</u>	<u>(1,441,624,757),</u>	<u>(1,880,314,153)</u>	<u>1,294,738,235</u>	<u>2,397,169,566</u>	<u>1,354,486,155</u>

(f) Analysis of past due assets

As of 31 December 2019, amount of overdue loans and advances (more than 3 months) is MOP 3,752,517 and the specific provision is amounted to MOP 1,611,219.

	Overdue Loans and Advances (MOP)	Specific Provision (MOP)
Group II	3,736,463	1,596,222
Group III	16,054	14,997
Group IV	-	-
Subtotal	<u>3,752,517</u>	<u>1,611,219</u>

16. Market risk management

Market risk is the risk arising from the movements in market prices of on and off-balance sheet positions in interest rates, foreign exchange rates, equity and commodity prices and the resulting change in the profit or loss or reserves of the Bank.

The Bank is exposed to market risk through its holdings of foreign currency denominated financial assets and liabilities, interest bearing financial instruments and equity financial instruments. The principal risk exposure of the Bank is from the fluctuation in the future cash flows or fair value of financial instruments due to the change in market interest rate and foreign exchange rate.

The EC reviews and approves the policies for the management of market risk. It has the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework, such as the established limits and stop-losses. The limits are set by EC and reviewed on a periodic basis with reference to market conditions. It is the Bank's policy that no limit should be exceeded. Treasury department has been delegated the responsibility on risk measurement and monitoring of market risk.

The Bank enters into financial derivative transactions for the management of assets and liabilities. The Bank uses interest rate swaps to manage mismatches in the interest rate of assets and liabilities. For assets and liabilities denominated in foreign currencies, the Bank will be exposed to risks due to the fluctuations of exchange rates. The Bank will use currency swaps and forward contract to mitigate these risks.

As of 31 December 2019, the Bank's market risk is primarily from foreign exchange swap transactions. There were no outstanding interest rate swaps as of balance sheet date.

The capital charge for market risk calculated in accordance with Notice no. 011/2015-AMCM guidelines as follows:

	<i>MOP In '000'</i>
Capital charge on foreign exchange Exposure/Total capital charge for market risk	1,433
Market Risk Exposure	1,433

17. Interest rate risk

The Bank's interest rate risk arises primarily from loans and advances to customers, deposits and placements, investment in debt securities and borrowings.

Fluctuations in market interest rates affect the Bank's net interest margin by altering the amount of income and costs associated to interest rate products and the value of the underlying assets, liabilities and off-balance sheet items.

The Bank interest rate risk exposure is calculated on the basis of classifying all interest rate sensitive assets, liabilities and off-balance sheet items based on their respective re-pricing schedule. It is assumed that there were no loan prepayments and the non-maturity deposits are fully retained and repriced on the next day. This model is similar to the duration model, using a stress testing scenario corresponding to a parallel shift of 200 basis points in the yield curve for all interest rate levels.

Interest rate risk is re-measured on a monthly basis, or when there is a change in the market condition.

Sensitivity analysis

The following table indicates the instantaneous change in the Bank's economic values of own funds that would arise if interest rates to which the Bank has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. Actual changes in the Bank's economic values of own funds resulting from the change in interest rates may differ from the result of the sensitivity analysis.

As of 31 December 2019, interest rate risk weighted position on all currencies, measured as its impact in the economic values of own funds as follows:

	<i>MOP</i> <i>In '000'</i>
MOP	(9,306.57)
HKD	(23,269.66)
USD	115,230.07

18. Operational risk management

Operational risks arise from the Bank's daily operation and fiduciary activities. The Bank's compliance department play an essential role in monitoring and limiting the Bank's operational risk. The primary focus of compliance departments is to ensure adherence to the operating guidelines, including regulatory and legal requirements and to pro-actively recommend improvements.

The Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements.

19. Foreign exchange risk

The Bank's functional currency is Macau Patacas ("MOP"). The Bank is exposed to currency risk primarily arising from financial instruments that are denominated in United States dollars ("USD") and other major currencies.

As the MOP is pegged to HKD and the HKD is pegged to the USD, the Bank considers the risk of movements in exchange rates between these currencies to be insignificant.

In respect of balances denominated in foreign currencies other than MOP, USD and HKD, the associated assets are matched to the corresponding liabilities denominated in the same currency. Therefore, the effect of foreign exchange fluctuation is minimized.

The following table indicates the concentration of currency risk as of 31 December 2019:

<i>(In thousand of MOP equivalent)</i>							
	<i>HKD</i>	<i>CAD</i>	<i>CNY</i>	<i>EUR</i>	<i>GBP</i>	<i>USD</i>	<i>OTHERS</i>
Spot as-sets	202,274	53	(190)	(1,244)	77	1,564,044	65
Spot liabilities	-	-	-	-	-	-	-
Forward sales	-	-	-	-	-	-	-
Net long (short) position	202,274	53	(190)	(1,244)	77	1,564,044	65

20. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

The Bank's liquidity is managed day-to-day by the Treasury department. The EC of the Bank has the ultimate responsibility for the prudent management of liquidity risk and decision on the structure of the liquidity management. The EC approves the liquidity risk tolerance by defining the level of liquidity risk that the Bank is willing to assume. A liquidity risk strategy is developed and this will be expressed as various high-level quantitative and qualitative targets taking into account the Bank's liquidity needs under both normal and stressful conditions.

To cater for short term funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Bank also performs regular stress tests on its liquidity position to ensure adequate liquidity is maintained at all times.

(a) Average liquidity

(i)

<i>Average weekly liquidity for the year</i>	<i>MOP</i>
	<i>In '000'</i>
Minimum weekly cash in hand	78,217
Average weekly cash in hand	149,363

The average weekly liquidity is computed as the product of specified assets and liabilities by proportion designated in accordance with AMCM's requirements, as reported in the weekly return submitted to AMCM.

(ii)

<i>Liquidity ratio for the year</i>	<i>In Percentage</i>
1month current ratio	246.6%
3months current ratio	242.0%

The liquidity ratio is computed as the simple average of the percentage of specified assets to liabilities in the last week of each calendar month in accordance with AMCM's requirement, as reported in the monthly return submitted to AMCM.

20. Liquidity risk (continued)

<i>(a) Average solvency assets</i>	<i>MOP</i> <i>In '000'</i>
Average specified liquid assets	5,401,204
Average total basic liabilities	5,652,244
Ratio of specified liquid assets to basic liabilities	95.6%

The average ratio of solvency assets to underlying liabilities is computed as the simple average of each calendar month's average ratio in accordance with AMCM's requirement, as reported in the monthly return submitted to AMCM.