

BANCO WELL LINK, S.A.

Annual Disclosure

for the year ended 31 December 2022

IN ACCORDANCE WITH THE AMCM CIRCULAR NO.006/B/2022-DSB-AMCM



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* 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 31st December 2022.

Business and Management Report

Benefiting from a MOP 1 billion capital increase and expansion by the end of 2021, the Bank's capital base has been further strengthened, providing room for business growth. With a strong capital adequacy ratio, the Bank was able to optimise its asset and liability structure, thereby enhancing its profitability. At the end of December 2022, the Bank's total asset size reached MOP 17.8 billion, with total deposits of MOP 14.4 billion and total lending of MOP 8.8 billion, representing increases of 21%, 28% and 47% respectively over the end of last year. Profit before tax was MOP239 million, an increase of MOP106.33 million or 80% compared to the same period last year. The capital adequacy ratio was 23.48%, the non-performing loan ratio was 0.14% and all other financial and regulatory ratios were within regulatory requirements.

The Bank is committed to building a smart bank, enhancing customer experience, strengthening risk control, strictly adhering to compliance and lawfulness, focusing on cost control and improving operational efficiency, and emphasising the construction and application of financial technology to realise the goal of moving from a traditional bank to a smart bank. We will continue to design and introduce new products and services to meet different market needs and enhance our competitiveness.

In 2022, the Bank enhanced a number of new services, including social security fund collection and payment services and bill payment functions; and enhanced the functions of STM machines to enable large cash withdrawals and withdrawals, real-time issuance of debit cards and passbook printing, which greatly enhanced the customer experience.

At the same time, we also focused on strengthening internal control and risk management, enhancing our systemic control capabilities, strengthening the responsibilities of various functional departments in relation to risk control and improving the three lines of defence mechanism; collaborating with the Post Office to build the Macao Credit Information Platform; adjusting and optimising the functions of the anti-money laundering system; and conducting the Internal Assessment of Capital Adequacy Process (ICAAP) under Pillar 2 of the Basel II Agreement.

As the customer base continued to grow, a number of different deposit and customer acquisition activities were launched in 2022, as well as marketing activities related to the securities business.

In addition to developing our own strengths, this year we have also planned and developed our own branding activities, such as the "Well Link Bank Customer Session" and the "Well Link Bank Parent-Child Classroom", which actively promote the connection between the Bank and its customers and strengthen our brand image in Macao. At the same time, we have also participated in the Community Chest Walk for Millions, as well as a number of charity events and sponsorships, thus taking up our social responsibility in Macao.

Results and appropriations

In accordance with the laws of Macao and the Articles of Association, the Bank made the following distribution of the undistributed profits for the year 2022 in the amount of MOP 210,823,718 (two hundred ten million eight hundred twenty-three thousand seven hundred eighteen patacas):

- (1) A statutory surplus reserve of MOP 42,164,744 at a rate of 20% of the net profit for the year 2022;
- (2) The profit of MOP 168,658,974 after taxation after the above distribution will be retained by the Bank and no dividend will be paid to shareholders.

Board of Directors
Macao, 28 March 2023

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 2022.

The Board of Directors' Report outlines in a clear manner the economic situation and progress of the Bank's activity during the 2022 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 2022 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.

Macao, 28 March 2023

3. Governing Bodies and Qualified Shareholders

Chairing Board of Shareholders' meeting

Chairman: Xu Chujia
Secretary: Yeung Chi Shing
Secretary: Xiang Fei

Board of Directors:

Chairman: Zhang Shengman
Directors: Xu Chujia
Paulo Jorge Fernandes Franco
So Shing Shun
Lao Pun Lap
Antonio Jose Felix Pontes
Chong Sio Fai
Huang Ruisheng
Cai Kunshan
Fang Hongguang Resigned on 31.03.2022
Hon Wai Ming Resigned on 30.06.2022
Artur Jorge Teixeira Santos Resigned on 31.12.2022

Executive Committee:

Chong Sio Fai
Huang Ruisheng
Cai Kunshan
Artur Jorge Teixeira Santos Resigned on 31.12.2022

Supervisory Board:

Chairman: Ng Man Kung
Members: Vong Hin Fai
CSC & Associates – Sociedade de Auditores (represented by MokChi 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>Total Capital</i>	<i>Holding capital</i>	<i>% of Total Capital</i>
Anderson Services Company Limited	MOP 400,000	MOP 100,000	25%
Zhuhai Liqiao Jinrong Keji Youxian Gongsi	CNY 10,000,000	CNY 2,000,000	20%

Qualified Shareholders:

Shareholders with a qualified holding as of 31 December 2022:

Well Link Holding Limited	59.67%
Kingyin (Macau) Holdings Limited	15%
Shengman Investments Limited	10%

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. Report of the Independent Auditor on the Summary Financial Statements

To the shareholders of Banco Well Link, S.A.
(Incorporated in Macao with limited liability by shares)

The accompanying summary financial statements of Banco Well Link, S.A. (the “Bank”) set out on pages 10 to 13, which comprise the balance sheet as at 31 December 2022, the income statement and the statement of comprehensive income for the year then ended, are derived from the audited financial statements of the Bank for the year ended 31 December 2022. We expressed an unmodified opinion on those financial statements, from which the summary financial statements are derived, in our independent auditor’s report dated 28 March 2023. These financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on these financial statements.

The summary financial statements do not contain all the disclosures required by the Financial Reporting Standards set out by the Macao Special Administrative Region under the Order of the Secretary for Economy and Finance No. 44/2020. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Bank.

Management's responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements in accordance with the Article 75(1) of the Decree-Law No. 32/93/M (“Financial System Act”) of 5 July.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements", of the Auditing Standards of the Macao Special Administrative Region.

Opinion

In our opinion, the summary financial statements as derived from the audited financial statements of the Bank for the year ended 31 December 2022 are consistent, in all material respects, with those audited financial statements, in accordance with the Article 75(1) of the Decree-Law No. 32/93/M (“Financial System Act”) of 5 July.

CHAN Wai CPA
Ernst & Young

Macao
28 March 2023

6. Balance Sheet

BANCO WELL LINK, S.A.
IN ACCORDANCE WITH THE AMCM CIRCULAR NO.006/B/2022-DSB-AMCM
Balance sheet as at 31 December 2022

	2022	2021
	MOP	MOP
		(Restated)
ASSETS		
Cash	72,032,502	63,694,437
Deposits and clearing balances with Autoridade Monetaria de Macau	304,808,692	275,695,295
Deposits on demand and clearing balances with credit institutions	234,631,163	282,458,335
Placements with credit institutions	6,720,268,672	7,078,225,249
Debt investments	1,476,063,686	811,681,123
Loans and advances	8,851,998,042	6,024,572,440
Interest receivables	N/A	41,737,224
Other assets	36,918,444	30,559,791
Deferred tax assets	5,274,066	898,537
Investments in associates	2,572,347	2,550,410
Plant and equipment	27,382,432	36,746,207
Intangible assets	61,823,425	56,961,862
	<hr/>	<hr/>
Total assets	<u>17,793,773,471</u>	<u>14,705,780,910</u>

6. Balance Sheet (continued)

BANCO WELL LINK, S.A.
Balance sheet as at 31 December 2022

	2022	2021
	MOP	MOP
		(Restated)
LIABILITIES		
Deposits and balances with banks and other financial institutions	449,324,547	694,515,337
Deposits from customers	14,416,969,394	11,260,708,362
Other liabilities	30,048,897	19,982,038
Other payables	46,837,839	125,514,190
Current tax liabilities	35,347,127	15,198,549
	<hr/>	<hr/>
Total liabilities	14,978,527,804	12,115,918,476
	<hr/>	<hr/>
EQUITY		
Share capital	2,200,000,000	2,200,000,000
Legal reserve	109,930,842	86,471,208
Investment revaluation reserve	(41,445,434)	(14,245,610)
Other reserve	112,873	112,873
Regulatory reserves	55,000,000	-
Retained profits	491,647,386	317,523,963
	<hr/>	<hr/>
Total equity	2,815,245,667	2,589,862,434
	<hr/>	<hr/>
Total liabilities and equity	17,793,773,471	14,705,780,910
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7. Income Statement

BANCO WELL LINK, S.A.
Income Statement
For the year ended 31 December 2022

	2022	2021
	MOP	MOP
		(Restated)
Interest income	626,823,399	440,778,637
Interest expense	<u>(242,451,837)</u>	<u>(185,103,923)</u>
NET INTEREST INCOME	384,371,562	255,674,714
Fee And commission income	58,505,488	46,861,926
Fee And commission expenses	<u>(4,514,163)</u>	<u>(3,014,137)</u>
NET FEE AND COMMISSION INCOME	53,991,325	43,847,789
Foreign exchange gain, net	52,904	4,221,682
Other Operating (expense)/income, net	(6,242,484)	14,090,733
Operating Expense	<u>(163,335,956)</u>	<u>(163,150,437)</u>
	268,837,351	154,684,481
Net charge of impairment allowances	<u>(30,125,295)</u>	<u>(22,300,148)</u>
PROFIT BEFORE TAX	238,712,056	132,384,333
Income Tax Expense	<u>(27,888,338)</u>	<u>(15,086,158)</u>
PROFIT FOR THE YEAR	<u><u>210,823,718</u></u>	<u><u>117,298,175</u></u>

8. Statement of Comprehensive Income

BANCO WELL LINK, S.A.
Statement of Comprehensive Income
For the year ended 31 December 2022

	2022 MOP	2021 MOP (Restated)
PROFIT FOR THE YEAR	210,823,718	117,298,175
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	(29,040,185)	N/A
Change in impairment allowances charged to income statement	330,556	N/A
Release upon disposal reclassified to income statement	(2,189,445)	N/A
Income tax effect	<u>3,699,250</u>	<u>N/A</u>
	(27,199,824)	N/A
Available-for-sale investments:	N/A	27,163,985
Changes in fair value	<u>N/A</u>	<u>(3,259,678)</u>
Income tax effect	N/A	23,904,307
Net other comprehensive income that may be reclassified to profit or loss in subsequent period	<u>(27,199,824)</u>	<u>23,904,307</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(27,199,824)</u>	<u>23,904,307</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>183,623,894</u></u>	<u><u>141,202,482</u></u>

CHIEF EXECUTIVE OFFICER

Chong Sio Fai

EXECUTIVE DIRECTOR

Huang Ruisheng

Macau, 28 March 2023

9. The Cash flow statement

	2022	2021
	<i>MOP</i>	<i>MOP</i>
		<i>(Restated)</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	238,712,056	132,384,333
Adjustments for:		
Depreciation of plant and equipment	10,174,928	9,850,180
Amortization of intangible assets	13,021,829	8,124,907
Loss (gain) on disposal of debt investments at fair value	6,274,071	(13,665,430)
Interest income from debt investments	(45,593,724)	(54,529,943)
Net charge of impairment allowances	30,125,295	22,300,148
Loss on disposal of items of plant and equipment	2,343	1,887,831
Loss on disposal of items of intangible assets	N/A	25,930
Share of profits from investments in associates	(21,937)	N/A
Exchange adjustments	37,108,018	(13,732,350)
	289,802,879	92,645,606
Increase in minimum statutory deposits with AMCM	(30,485,000)	(11,484,000)
Increase in loans and advances	(2,809,448,417)	(1,901,143,378)
Decrease/(increase) in placements with credit institutions with original maturity more than three months	1,206,200,778	(171,266,859)
(Increase)/decrease in interest receivables and other assets	(6,358,652)	5,501,556
(Decrease)/increase in deposits and balances with banks and other financial institutions	(246,801,679)	264,546,355
Increase in deposits from customers	3,086,326,017	978,388,732
Increase in other liabilities	9,115,463	764,176
Increase/(decrease) in other payable	16,401,112	(33,965,925)
Cash from/(used in) operations activities	1,514,752,501	(775,913,737)
Macao complementary tax paid	(14,420,920)	(11,045,818)
Net cash flows from (used in) operating activities	1,500,331,581	(786,959,555)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Purchases of items of plant and equipment	(813,497)	(10,635,060)
Purchases of items of intangible assets	(17,883,392)	(22,900,261)
Interest received from debt investments	43,498,907	54,470,583
Purchases of debt investments	(832,088,731)	(401,331,228)
Proceeds from disposal of debt investments	110,318,400	613,229,989

9. The Cash flow statement(continued)

	2022	2021
	<i>MOP</i>	<i>MOP</i>
		<i>(Restated)</i>
Net cashflows from investing activities	(696,968,313)	232,834,023
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	1,000,000,000
Net cash flows from financing activities	-	1,000,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	803,363,266	445,874,468
Cash and cash equivalents at beginning of year	<u>2,897,731,667</u>	<u>2,451,857,199</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>3,701,094,933</u>	<u>2,897,731,667</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash	72,032,502	63,694,437
Deposits and clearing balances with AMCM with original maturity within three months	304,808,692	275,695,295
Deposits on demand with credit institutions	234,631,163	282,458,335
Placements with local credit institutions with original maturity within three months	2,517,933,928	2,188,937,600
Placements with foreign credit institutions with original maturity within three months	730,407,648	215,180,000
Less: Minimum statutory deposits with AMCM	(158,719,000)	(128,234,000)
Cash and cash equivalents as stated in the statement of cash flows	<u>3,701,094,933</u>	<u>2,897,731,667</u>

10. Off-balance sheet exposures other than derivative transactions

At 31 December 2022, 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	46,824,139
Letter of Credit	1,415,453
Undrawn facilities	308,580,410

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 2022, the Bank had future aggregate minimum lease payments under operating leases as follows (in MOP):

Within one year	21,481,633
In the second to fifth years, inclusive	71,869,807
After five years	4,425,245
	<u>97,776,685</u>

11. Derivatives

As at 31 December 2022, 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) *Revenue recognition*

- Interest income

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future-cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

The Bank calculates interest income on financial assets, other than those considered credit-impaired by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (and is therefore regarded as Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

12. Accounting Policies (continued)

(a) Revenue recognition (continued)

- Fee and commission income

The Bank earns fee and commission income from a diverse range of financial 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 typically include multiple performance obligations.

When the Bank provides a service to its customers, 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.

Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include loan related fees, where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs.

Fee and commission income from providing services where performance obligations are satisfied at a point in time

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from bank guarantees granted, insurance brokerage services, credit card services, remittance and settlement.

- Net gain/loss on derecognition of financial assets measured at amortised cost or FVOCI

Net gain/loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

12. Accounting Policies (continued)

(b) *Investments and other financial assets*

- Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient of not adjusting the effect of a significant financing component, the Bank initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2022)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

- Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Bank measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

12. Accounting Policies (continued)

(b) *Investments and other financial assets (continued)*

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Bank measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

12. Accounting Policies (continued)

(b) *Investments and other financial assets (continued)*

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Bank and the amount of the dividend can be measured reliably, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Bank had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Bank and the amount of the dividend can be measured reliably.

12. Accounting Policies (continued)

(b) *Investments and other financial assets (continued)*

- Reclassification of financial assets

If the Bank makes changes to its financial assets management business model, which is only expected to occur relatively infrequently and on an exceptional basis, all of the financial assets affected are reclassified in conformity with the requirements of IFRS 9 - "Financial instruments". The reclassification is applied prospectively from the date upon which it becomes effective. Under IFRS 9 "Financial instruments", reclassifications of equity instruments for which the valuation option through other comprehensive income or for other financial assets and liabilities at fair value in the sphere of the fair value option have been included, are not permitted.

- Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. when it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

12. Accounting Policies (continued)

(c) *Impairment of financial assets*

The Bank recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Bank applies the low credit risk simplification. At each reporting date, the Bank evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Bank reassesses the external credit ratings of the debt investments. In addition, the Bank considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

12. Accounting Policies (continued)

(c) *Impairment of financial assets (continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 - Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 - Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 - Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Bank applies the practical expedient of not adjusting the effect of a significant financing component, the Bank applies the simplified approach in calculating ECLs. Under the simplified approach, the Bank does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Bank has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Bank chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above. The Bank assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the Bank makes an estimate of the asset's recoverable amount.

An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to the statement of profit or loss in the year in which it arises.

12. Accounting Policies (continued)

(d) *Financial investments*

Investment in associate

An associate is an entity in which the Bank has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee. But is not control or joint control over those policies.

The Bank's investments in associates are stated in the statement of financial position at the Bank's share of net assets under the equity method of accounting, less any impairment losses. The Bank's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the statement of profit or loss and consolidated other comprehensive income. Respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Bank recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and its associates or joint ventures are eliminated to the extent of the Bank's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Bank's investments in associates or joint ventures.

(e) *Plant and equipment and depreciation*

Plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition location for its intended use.

Expenditure incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of plant and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

12. Accounting Policies (continued)

(e) *Plant and equipment and depreciation (continued)*

<i>Furniture, fixture and equipment</i>	<i>10%to20%</i>
<i>Other Computer equipment</i>	<i>25%</i>
<i>Motor vehicles</i>	<i>20%</i>
<i>Leasehold improvements</i>	<i>16^{2/3}%</i>

An item of plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. Construction in progress represents the costs attributable to the leasehold improvements, which is stated at cost less any impairment losses, and is not depreciated until it is ready for its intended use. Construction in progress is reclassified to the appropriate category of plant and equipment when completed and ready to use.

(f) *Intangible assets*

Intangible assets include banking systems which are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three to ten years.

Expenditure on internally developed products is capitalised and deferred only if it can be demonstrated that the product or process is technically and commercially feasible and the Company has sufficient resources to complete the project. Expenditure that does not meet the recognition criteria is expensed in the statement of profit or loss when it is incurred. Capitalised development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three to ten years, commencing from the date when the products are put into commercial production.

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three years. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

12. Accounting Policies (continued)

(g) *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.

(h) *Foreign currencies*

These financial statements are presented in Macao patacas, which is the Bank's functional currency. Foreign currency transactions recorded by the Bank are initially recorded using their respective functional currency rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

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.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Bank initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Bank determines the transaction date for each payment or receipt of the advance consideration.

(i) *Leases*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer to the Bank substantially all the rewards and risks incidental to ownership of a leased item. All other leases are classified as operating leases.

Operating lease payments, net of any incentives received from the lessor, are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease terms.

12. Accounting Policies (continued)

(j) *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.

(k) *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.

(l) *Income tax*

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Bank operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

12. Accounting Policies (continued)

(l) *Income tax (continued)*

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(m) *Related parties*

A party is considered to be related to the Bank if:

(a) the party is a person or a close member of that person's family and that person

- (1) has control or joint control over the Bank;
- (2) has significant influence over the Bank; or
- (3) is a member of the key management personnel of the Bank or of a parent of the Bank;

or

(b) the party is an entity where any of the following conditions applies:

- (1) the entity and the Bank are members of the same group;
- (2) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (3) the entity and the Bank are joint ventures of the same third party;
- (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (5) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
- (6) the entity is controlled or jointly controlled by a person identified in (a);
- (7) a person identified in (a)() has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

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;
 - (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.

13. Related party transactions (continued)

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>
Shareholders:		
Interest expenses	<u>(452)</u>	
Directors:		
Interest expenses	<u>(62,952)</u>	
Other related parties		
Interest expenses	<u>(2,384,275)</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)*

Shareholders:	
Loans and advances	291,192
Deposit from customers	(1,039,321)
Interest payables	<u>(280)</u>
Directors:	
Loans and advances	213,015
Deposit from customers	(3,726,074)
Interest payables	<u>(13,211)</u>
Associates:	
Deposit from customers	(515,838)
Other payables	<u>(2,332,060)</u>
Other related parties	
Loans and advances	423,797
Deposit from customers	(178,476,449)
Interest payables	<u>(213,953)</u>

14. Capital

(a) *Share capital*

Authorised, issued and fully paid (in MOP):

2,200,000 shares of MOP1,000 each	<u>2,200,000,000</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 2022 amounted to MOP 2,815 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	2,200,000,000
Legal reserve	109,930,842
Other reserve	112,873
Changes in fair value of bonds	(41,445,434)
Retained earnings	491,647,386
Total core capital	<hr/> 2,760,245,667
General provision/ Total supplementary capital	55,000,000
Total amount of own funds	<hr/> <hr/> 2,815,245,667

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 2,200,000 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.

(ii) Capital Adequacy Ratio

As of 31 December 2022, the Bank has maintained a Capital Adequacy Ratio of 23.48% 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 if a customer or counterparty to fails to meet the contractual obligations, and arises principally from the Bank's loans and advances to customer and other credit institutions and investment in monetary bills and investment in debt securities. Management 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 when due and current ability to pay, and 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.

Investments normally consist of investment in debt securities and liquid securities quoted on a recognised stock exchange and with counterparties that have high credit ratings. 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.

Credit Risk Management Policy

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to fails to meet the contractual obligations, and arises principally from the Bank's loans and advances to customer and other credit institutions and investment in debt 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 when due and current ability to pay, and 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.

The Bank has established clear policies on the principles, framework, governance, risk appetite and limits, standards and procedures of credit risk management. The Bank's credit risk management framework consists of the following key elements:

- Effective organizational structure for credit risk management;
- Comprehensive system of credit policies and management regulations;
- Risk appetite presenting the Bank's metrics in relation to credit risk limits, tolerance levels, targets and risk owners.
- Appropriate and effective credit review and approval process;
- Management system for eligible collaterals;

15. Credit risk management (continued)

- Credit portfolio risk management and control measures, including credit assets classification, credit portfolio limit monitoring and management, and stress testing programs;
- Proactive post-loan management strategies and measures;
- Appropriate and forward-looking credit impairment and provisioning practices.

All the policies are reviewed on annual basis according to the Bank's strategy and risk appetite, current situation of the Bank and the economic environment and regulatory context.

Overview of Impairment Assessment

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method to a forward-looking ECL approach. From 1 January 2022, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan accrual interests, receivables, commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

15. Credit risk management (continued)

Judgement and Assumption

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns risk parameters to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on risk parameters;
- Selection of forward-looking macroeconomic scenarios and their probability weightings.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Default and Impaired

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower is classified as Sub-standard, Doubtful or Loss, which represent "non-performing" for internal management and regulatory purpose. A financial instrument will be classified as Sub-standard and therefore considered as impaired in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

15. Credit risk management (continued)

Significant Increase in Credit Risk

The Bank considers an exposure to have significantly increased in credit risk when the borrower becomes 30 days past due on its contractual payment. The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that event when the borrower with external rating is downgraded for more than 2 notches from an initial rating lower than Baa3 (by Moody's rating scale or equivalent) is a significant increase in credit risk as opposed to a default. Regardless of credit rating, if the borrower/credit asset is classified as Special Mention in asset classification grade according to the Bank's assessment, the credit risk is deemed to have increased significantly since initial recognition.

Grouping Financial Assets Measured on a Collective or Individual Basis

Dependant on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets;
- Exposures that have been classified as POCI when the original loan was derecognized and a new loan was recognized as a result of a credit driven debt restructuring;
- The credit assets deemed necessary by the Bank's management due to its risk assessment.

Asset classes where the Bank calculates ECL on a collective basis include:

- All Stage 1 and 2 credit portfolios that are not subject to individual assessment;
- Purchased POCI exposures managed on a collective basis.

The Calculation of ECLs

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

15. Credit risk management (continued)

The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside case and a downside case). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Probability of Default

The Bank's independent Risk Management Department operates macroeconomic response models to estimate PDs for different credit portfolios by establishing statistical relationship between macroeconomic factors and Point-in-Time PDs, which are then adjusted for IFRS9 ECL calculations to incorporate forward looking information. This is repeated for each economic scenario as appropriate.

Exposure at Default

The EAD represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios.

15. Credit risk management (continued)

Loss Given Default

For corporate and investment banking financial instruments, LGD rates are derived from statistical models with respect to different tiers in seniority structure, which are subject to further adjustment and calibrated to internal level. For retail and credit card portfolio, LGDs are assessed based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics, with reference to industry common practice and Basel committee's guidance.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Forward-looking Factors

In the ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- CPI and PPI
- Unemployment rate
- House price index
- Government debts and revenues

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be occasionally made as temporary adjustments when such differences are significantly material.

Management Overlay

In the event of any unanticipated event resulting in a sudden change in credit risk, a management overlay with the corresponding ECL or ECL% set by management based on the evaluation on the event may be considered to avoid underestimation of impairment levels and delayed response to credit risk.

15. Credit risk management (continued)

(a) Geographical analysis of loans and advances to customers

<i>Region</i>	<i>Loans and Advances Outstanding Balance MOP</i>	<i>Loans and Advances Impaired Loan Amount MOP</i>	<i>Stage 3 ECL MOP</i>
Macau SAR	119,886,356	12,941,101	8,587,592
Hong Kong	6,740,932,078	82,085	82,085
Cayman Islands	27,157,499	-	-
China, People's Republic	1,155,328,130	323,982	323,967
Virgin Islands	588,375,789	-	-
Samoa	263,954,255	-	-
Total	8,895,634,107	13,347,168	8,993,644

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	740,413,725
Of which:	
– Banks	248,617,741
– Government/Public sectors	413,023,177
– Others	78,772,807
Philippines	108,010,691
Of which:	
– Banks	108,010,691
– Government/Public sectors	-
– Others	-
China	525,169,277
Of which:	
– Banks	380,273,342
– Government/Public sectors	144,895,935
– Others	-
Macau SAR	102,594,575
Of which:	
– Banks	102,594,575
– Government/Public sectors	-
– Others	-
Total	<u>1,476,188,268</u>

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.

	Loans and Advances Outstanding Balance	Loans and Advances Impaired Loan Amount	Stage III ECL
	MOP	MOP	MOP
Agriculture and fisheries	-	-	
Mining industries	-	-	
Manufacturing industries	388,487,143	-	
Electricity, gas and water	-	-	
Construction and public works	2,064,553,350	-	
Wholesale and retail trade	1,830,768,407	-	
Restaurants, hotels and similar	1,393,309,148	-	
Transport, warehousing and communications	-	-	
Non-monetary financial institutions	9,708,526	-	
Gaming	-	-	
Exhibition and conference	-	-	
Education	-	-	
Information technology	528,003,397	-	
Other industries	2,504,202,472	-	
Personal loans	176,601,664	13,347,168	8,993,644
Total	8,895,634,107	13,347,168	8,993,644

15. Credit risk management (continued)

(d) Analysis of assets and liabilities by remaining maturity

The maturity profile of the Banks financial assets and liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	<i>Maturity date of financial instruments</i>						<i>Total</i> MOP
	<i>On demand</i> MOP	<i>Less than 3 months</i> MOP	<i>3 to less than 6 months</i> MOP	<i>6 to less than 12 months</i> MOP	<i>1 to 5 years</i> MOP	<i>Over 5 years</i> MOP	
Financial Assets							
Cash	72,032,502	-	-	-	-	-	72,032,502
Deposits and clearing balances with AMCM	304,808,692	-	-	-	-	-	304,808,692
Deposits on demand and clearing with credit institutions	234,631,163	-	-	-	-	-	234,631,163
Placements with credit institutions	-	5,755,229,190	528,075,677	436,963,805	-	-	6,720,268,672
Loans and advances	34,566,558	379,414,280	392,682,219	228,434,039	7,860,537,011	-	8,895,634,107
Debt investments	-	51,736,515	-	200,348,329	861,429,090	362,549,752	1,476,063,686
Financial assets included in other assets	21,815,929	2,598,140	-	-	2,369,000	2,250,756	29,033,825
Total financial assets	<u>667,854,844</u>	<u>6,188,978,125</u>	<u>920,757,896</u>	<u>865,746,173</u>	<u>8,724,335,101</u>	<u>364,800,508</u>	<u>17,732,472,647</u>

15. Credit risk management (continued)

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

The maturity profile of the Banks financial assets and liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	<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
Financial Liabilities							
Deposits and balances with banks and other financial institutions	1,798,205	443,883,707	3,642,635	-	-	-	449,324,547
Deposits from customers	1,266,351,516	5,942,480,313	2,233,861,686	4,625,040,184	349,235,695	-	14,416,969,394
Financial liabilities included in other liabilities	6,359,403	-	-	-	3,136,249	4,472,187	13,967,839
Financial liabilities included in other payables	6,550,779	128,977	575,671	462,529	16,116,154	-	23,834,110
Total financial liabilities	<u>1,281,059,903</u>	<u>6,386,492,997</u>	<u>2,238,079,992</u>	<u>4,625,502,713</u>	<u>368,488,098</u>	<u>4,472,187</u>	<u>14,904,095,890</u>
Net liquidity position	<u>(613,205,059)</u>	<u>(197,514,872)</u>	<u>(1,317,322,096)</u>	<u>(3,759,756,540)</u>	<u>8,355,847,003</u>	<u>360,328,321</u>	<u>2,828,376,757</u>

15. Credit risk management (continued)

(e) Ageing analysis of accounting past-due exposures

(i) Loans and advances to non-bank customers

	Loans and Advances Outstanding Balance		Value of Collateral MOP	Stage III ECL MOP
	MOP	% to total		
Performing and past due for no more than 3 months	8,883,390,235	99.86%	/	436,223
Past due for more than 3 months but not more than 6 months	3,791,143	0.04%	927,000	1,123,904
Past due for more than 6 months but not more than 1 year	6,207,133	0.07%	61,800	4,882,349
Past due for more than 1 year	2,245,596	0.03%	60,000	2,551,168
	<u>8,895,634,107</u>	<u>100.00%</u>	<u>1,048,800</u>	<u>8,993,644</u>

(ii) Loans and advances to banks

During the period, the Bank did not have any overdue interbank loans and advances.

(iii) Other assets

During the period, the Bank did not have any overdue other assets.

15. Credit risk management (continued)

(f) Credit quality analysis under regulatory asset classification

	Amount in MOP			Value of Collateral MOP"	ECL MOP
	Stage I	Stage II	Stage III		
Credit - loans and advance					
Pass	8,413,993,101	-	-	11,000,195,490	22,082,844
Special Mention	-	468,610,278	-	38,761,187	12,559,577
Substandard	-	-	4,148,712	1,545,000	1,352,393
Doubtful	-	-	6,108,080	61,800	4,858,542
Loss	-	-	2,773,936	60,000	2,782,709
<i>(subtotal)</i>	<i>8,413,993,101</i>	<i>468,610,278</i>	<i>13,030,728</i>	<i>11,040,623,477</i>	<i>43,636,065</i>
Placements with credit institutions					
Pass	6,720,515,299	-	-	-	246,627
Debt investments					
Pass	1,476,188,268	-	-	-	457,872

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 2022, 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</i> <i>In '000'</i>
Capital charge on foreign exchange Exposure/Total capital charge for market risk	7,050
Market Risk Exposure	7,050

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 2022, 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	(7,883)
HKD	(36,575)
USD	14,540
CNY	24,060

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.

19. Foreign exchange risk (continued)

The following table indicates the concentration of currency risk as of 31 December 2022:

(In thousand of MOP equivalent)

	Currency	Net Open Position excluding option contracts Long or Short	Net Position in op- tion contracts Long or Short	Net Open Position including option con- tracts Long or Short
1	Australian dollars	97	-	97
2	Canadian dollars	118	-	118
3	Chinese renminbi	3,553	-	3,553
4	Euro	(7,050)	-	(7,050)
5	Hong Kong dollars	2,638,207	-	2,638,207
6	Japanese yen	-	-	-
7	New Zealand dollars	-	-	-
8	Pound sterling	391	-	391
9	Singapore dollars	-	-	-
10	Swiss francs	-	-	-
11	US dollars	(754)	-	(754)
12	Foreign currencies not separately speci- fied above, except gold	48	-	48
13	Gold	-	-	-
	Total	2,634,610	-	2,634,610

The following foreign currency constitutes not less than 10% of our bank's total net position in all foreign currencies:

(In thousand of MOP equivalent)

Currency	Spot Assets	Spot Liabilities	forward purchases	forward sales	Net long position
Hong Kong dollars	19,684,900	17,046,693	-	-	2,638,207
Total	19,684,900	17,046,693	-	-	2,638,207

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	193,671
Average weekly cash in hand	264,818

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>
1 month current ratio	115.1%
3 months current ratio	104.5%

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)

(b) *Average solvency assets*

<i>Average solvency assets</i>	<i>MOP In '000'</i>
Average specified liquid assets	7,089,621
Average total basic liabilities	11,516,160
Ratio of specified liquid assets to basic liabilities	61.6%

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.