Hang Seng Bank Limited
Macau Branch

Financial disclosure
(unaudited)

for the year ended 31 December 2022

Statement of financial position
As at 31 December 2022

	2022 MOP'000	2021 MOP'000
Assets		
Cash and balances with banks	5,910,963	4,041,038
Deposits with AMCM	193,623	195,751
Loans and advances to customers	13,662,679	14,358,974
Other assets	10,220	30,005
Tangible fixed assets	21,227	22,444
Deferred income tax assets	-	1,541
	19,798,712	18,649,753
Liabilities		
Deposits from customers	1,932,325	1,725,306
Deposits and balances from banks	16,020,437	15,406,022
Other liabilities	65,025	30,794
Current income tax liabilities	37,644	18,096
	18,055,431	17,180,218
Net Assets	1,743,281	1,469,335
Represented by		
General regulatory reserve	138,775	-
Specific regulatory reserve	-	-
Head office account	1,640,506	1,469,535
	1,743,281	1,469,535

Statement of comprehensive income
For the year ended 31 December 2022

	2022 MOP'000	2021 MOP'000
Interest income	402,073	242,847
Interest expense	(197,847)	(25,311)
Net interest income	**204,226**	**217,536**
Other operating income	10,378	12,699
Operating income	**214,604**	**230,235**
Operating expenses	(69,005)	(68,044)
Operating profit before change in expected credit losses and other credit impairment release / loan impairment charge	**145,599**	**162,191**
Change in expected credit losses and other credit impairment release / loan impairment (charge)	20,177	(8,470)
Profit before income tax	**165,776**	**153,721**
Taxation	(20,701)	(16,921)
Profit for the period	**145,075**	**136,800**
Other comprehensive income	-	-
Profit and total comprehensive income for the year	**145,075**	**136,800**

Hang Seng Bank Limited Macau Branch – Operational Results Summary

Operating conditions continued to be challenging in 2022, with the world still feeling the pinch of the economic and social consequences of the COVID-19 pandemic development. Investor and business sentiment was dampened in the second half of the year in response to the emergence of the new Omicron variant. Again, disruptions in trade and supply chains resulted in a slowdown of the global economic recovery.

In this testing environment, the Macau Branch of Hang Seng Bank Limited (the 'Branch') continued to move forward by strengthening its long-term business resilience and pursuing service innovations for the benefit of its customers and the community. These ongoing enhancements reflect Hang Seng's customer-centric philosophy of making banking simple and convenient and taking service experiences to new levels.

The principal activities of the Branch during 2022 were the provision of banking services to commercial and personal customers, including diversified deposit and trade finance services, cross-boundary renminbi trade services, mortgage loans, corporate lending, remittances and foreign exchange, bills collection and insurance agency services. As at 31 December 2022, customer deposits and customer loans were MOP1,932m and MOP13,663m respectively. Profit after tax for the year was MOP145m.

Looking ahead, the Branch will continue to take a dynamic, yet strategic, approach to its operations so as to achieve sustainable growth irrespective of changing market conditions. Continued investment will also be made in optimising the market position of its services, by staying active in the syndicated loan market, exploring new business potential in green finance, and capturing new opportunities arising from the Greater Bay Area.

On behalf of the Branch management, I would like to take this opportunity to express our sincere appreciation for the continued strong support we have received from government authorities as well as our customers and staff.

Isidorus Fong
Branch Manager
Hang Seng Bank Limited, Macau Branch

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

TO THE MANAGEMENT OF HANG SENG BANK LIMITED - MACAU BRANCH

The accompanying summary financial statements of Hang Seng Bank Limited - Macau Branch (the "Branch"), which comprise the summary statement of financial position as at 31 December 2022, the summary statement of comprehensive income for the year then ended, are derived from the audited financial statements of the Branch for the year ended 31 December 2022. We expressed an unmodified audit opinion on those financial statements, from which the summary financial statements are derived, in our report dated 26 April 2023.

The summary financial statements do not contain all the disclosures required by Financial Reporting Standards issued by the Government of the Macao Special Administrative Region. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Branch.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements in accordance with AMCM Circular No.006/B/2022-DSB/AMCM.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standard on Auditing 810 "Engagements to Report on Summary Financial Statements", which is included in the Auditing Standards, issued by the Professional Committee of Accountants of the Government of the Macao Special Administrative Region.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Branch for the year ended 31 December 2022 are consistent, in all material respects, with the audited financial statements, in accordance with Article 76 of the Financial System Act of Macao and AMCM Circular No.006/B/2022-DSB/AMCM.

Li Ching Lap Bernard
Certified Public Accountant
PricewaterhouseCoopers

Macao, 26 April 2023

Cash flow statement
For the year ended 31 December 2022

	2022 MOP'000	2021 MOP'000
Cash flows from operating activities		
Profit before income tax	165,776	153,721
Depreciation	6,305	6,116
Loan impairment (release) / charge	(20,177)	8,470
Interest income	(402,073)	(242,847)
Interest expense	197,847	25.311
Interest received	390,365	244,546
Interest paid	(155,033)	(28,366)
Decrease in minimum deposits with AMCM	2,332	5,380
Decrease / (increase) in gross loans and advances to customers	874,400	(625,442)
Decrease in other assets	4,085	1,620
Increase in balances with banks with original maturity more than three months	(499,454)	(162,377)
Increase / (decrease) in deposits from customers	207,019	(199,779)
Increase in deposits and balances from banks	614,415	476,291
Decrease in other liabilities	(8,154)	(9,669)
Cash inflow / (outflow) from operating activities before taxation	1,377,653	(347,025)
Macau complementary tax paid	(18,949)	(17,837)
Cash inflow / (outflow) from operating activities	1,358,704	(364,862)
Cash flows from investing activities		
Purchase of tangible fixed assets	(5,088)	(244)
Cash outflow from investing activities	(5,088)	(244)
Increase / (Decrease) in cash and cash equivalents	1,353,616	(365,106)
Cash and cash equivalents at 1 January	3,494,915	3,860,021
Cash and cash equivalents at 31 December	4,848,531	3,494,915

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

Cash and balances with banks	4,681,440	3,323,022
Deposits with AMCM in excess of minimum statutory requirement	162,650	162,447
Items in course of collection from other banks	5,051	10,823
Items in course of transmission to other banks	(610)	(1,377)
	4,848,531	3,494,915

Off-balance sheet exposures

(a) Contingent liabilities and commitments

	2022 MOP'000	2021 MOP'000
Bank guarantees	585,497	617,873
Commitments:		
Trade-related contingencies	258,757	567,684
Acceptance on trade bills	204,651	446,572
Undrawn formal standby facilities, credit lines and other commitments to lend	4,317,349	3,930,552
	4,780,757	4,944,808

(b) Lease commitments

The Branch leases a number of properties under operating leases. The leases typically run for a period of one to three years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2022 MOP'000	2021 MOP'000
Not later than one year	7,665	7,620
Later than one year and not later than five years	8,796	16,348
	16,461	23,968

Derivative transactions

There were no derivative transactions as at 31 December 2022 and 31 December 2021.

Accounting policies

(a) Basis of preparation

The financial statements of the Branch have been prepared in accordance with Financial Reporting Standards issued by the Directive of Secretaria para a Economia e Finanças No. 44/2020 on 17 March 2020 ("New MFRS").

The financial statements have been prepared under the historical cost convention.

(i) New and amended standards and interpretations adopted

Effective from 28 March 2020, MFRS under Administrative Regulation No. 25/2005 on 9 December 2005 were replaced by Financial Reporting Standards issued by the Directive of Secretaria para a Economia e Finanças No. 44/2020 on 17 March 2020. The New MFRS is mandatory for adoption from the annual period beginning 1 January 2022. The Branch has not early adopted the New MFRS in preparing the financial statements.

The adoption of the New MFRS does not result in significant changes to the Branch's accounting policies applied in the financial statements for the year presented. The following set out the standards and amendments that have significant changes in accounting policies for the current and opening balances reflected in the financial statements.

<u>IAS 1 – Presentation of financial statements</u>

IAS 1 requires to present all non-owner changes in equity either in one statement of comprehensive income or in two statements. The standard also requires the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. These impact presentation aspects.

<u>IFRS 9 – Financial instruments</u>

IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard permits to apply the transitional provisions for the adoption.

The Branch's debt instruments that were previously classified as held-to-maturity/loans and receivables which are now measured at amortised cost under IFRS 9.

Accounting policies (continued)

(a) Basis of preparation (continued)

(i) New and amended standards and interpretations adopted (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 - Revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts. At initial recognition, impairment allowance is required for ECL resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument.

The Branch has undertaken an assessment of how its impairment provisions would be affected by the new model and is expected to result in a decrease in the provision amount due to the adoption of IFRS 9. Nevertheless, Circular No. 012/2021-AMCM issued by AMCM requires the Branch to establish a regulatory reserve based on the credit risk of its financial assets.

(ii) Establishment of regulatory reserve

The regulatory reserve is maintained to satisfy the provisions of the AMCM for prudential supervision purposes by appropriated amounts in respect of losses which the Branch will or may incur on credit exposures in addition to expected credit loss recognised in accordance with AMCM Guideline Notice 012/2021-AMCM. Movements in the regulatory reserve are appropriated directly through retained profits. As at 31 December 2022, the balance of general regulatory reserves is MOP 138,775,000 and nil for specific regulatory reserves.

Set out in "Changes in accounting policies" are disclosures relating to the impact, net of tax, of transition to IFRS 9 and establishment of regulatory reserve on the statement of financial position of the Branch.

(b) Revenue recognition

(i) Interest income

Interest income is recognised on an accruals basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Branch that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Accounting policies (continued)

(b) Revenue recognition (continued)

(ii) Fee and commission income

Fee income is earned from a diverse range of services provided by the Branch to its customers and is accounted for as follows:

– income earned on the execution of a significant act is recognised as revenue when the act is completed; and

– income earned from the provision of services is recognised as revenue when the services are provided.

(c) Financial Instruments

Classification

From 1 January 2022, the Branch has applied IFRS 9 and classifies its financial assets in the following measurement categories:

– Amortised cost

– Fair value through other comprehensive income (“FVOCI”); or

– Fair value through profit or loss (“FVPL”)

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

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Branch commits to purchase or sell the asset. Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire, or when the financial asset together with substantially all the risks and rewards of ownership, have been transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Measurement

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is the fair value of the consideration given or received).

Accounting policies (continued)

(c) Financial Instruments (continued)

(i) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes the directly attributed transactions costs.

The Branch may commit to underwrite loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Branch intends to hold the loan, the loan commitment is included in the impairment calculations set out below (see “Impairment on financial assets”).

(ii) Financial assets measured at fair value through other comprehensive income (‘FVOCI’)

Financial assets held for a business model that is achieved by both selling and collecting contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Branch enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold.

Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as ‘Gains less losses from financial investments’. Financial assets measured at FVOCI are included in the impairment calculations set out below (see “Impairment on financial assets”) and impairment is recognised in profit or loss.

(iii) Fair value through profit or loss (“FVPL”)

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- where the financial liability contains one or more non-closely related embedded derivatives.

Accounting policies (continued)

(c) Financial Instruments (continued)

(iii) Fair value through profit or loss (“FVPL”) (continued)

Designated financial assets are recognised when the Branch enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Branch enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair value are recognised in the income statement in ‘Net income from financial instruments measured at fair value through profit or loss.

(d) Impairment on financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) (‘12-month ECL’). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’).

Financial assets where 12-month ECL is recognised are considered to be ‘stage 1’; financial assets which are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in ‘stage 3’.

Credit-impaired (stage 3)

The Branch determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are 90 days past due or above;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower’s financial condition; or
- the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less allowance for ECL.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Accounting policies (continued)

(d) Impairment on financial assets (continued)

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly considers if the financial instrument has experienced a significant increase in credit risk, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument, the borrower and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average probability of default ('PD') for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgment, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15bps
2.1-3.3	30bps
Greater than 3.3 and not impaired	2x

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notch
8.3	0 notch

Accounting policies (continued)

(d) Impairment on financial assets (continued)

Significant increase in credit risk (stage 2) (continued)

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date PD derived from credit history which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are divided into account level and homogeneous segment level measurement. Within each portfolio, the stage 2 accounts are defined as accounts with 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months are recognised for financial instruments that remain in stage 1.

Movement between stages

Financial assets can be transferred between the different stages depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

For wholesale portfolios, renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment.

While for retail portfolios, renegotiated loans remain in stage 3 for their renegotiated lifetime. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Branch calculates ECL using three main components, PD, a loss given default (‘LGD’) and the exposure at default (‘EAD’).

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

Accounting policies (continued)

(d) Impairment on financial assets (continued)

Measurement of ECL (continued)

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The Branch leverages the Basel framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows:

Model	Regulatory capital	IFRS 9
PD	– Through the cycle (represents long-run average PD throughout a full economic cycle) – The definition of default includes a backstop of 90+ days past due – Regulatory floors may apply according to regulatory requirements	– Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) – An obligor/an account being 90 days past due or above is considered as defaulted – No floors is required under IFRS 9
EAD	– Cannot be lower than current balance	– Amortisation captured for term products
LGD	– Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) – Regulatory floors may apply according to regulatory requirements – Discounted using cost of capital – All collection costs included	– Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) – No floors is required under IFRS 9 – Discounted using the effective interest rate of the loan – Only costs associated with obtaining/selling collateral included
Other		– Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate.

Accounting policies (continued)

(d) Impairment on financial assets (continued)

Measurement of ECL (continued)

For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Branch and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Branch is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility.

However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Branch's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered.

Instead, ECL is measured over the period the Branch remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail revolving loan, overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years.

In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL in excess of the carrying amount of the financial asset is recognised as a provision.

Forward-looking economic forecast

The Branch applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative the view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit loss in most economic environments. In certain economic environments, additional analysis may be necessary and result in additional scenarios or adjustments, to reflect a range of possible economic outcomes for an unbiased expected credit loss estimate.

The recognition and measurement of ECL involve the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. Four global economic scenarios "Central", "Upside", "Downside" and "Downside 2" are used to capture the current economic environment and to articulate management's view of the range of potential outcomes.

Accounting policies (continued)

(d) Impairment on financial assets (continued)

Forward-looking economic forecast (continued)

Three of the scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios.

Management Overlay

There is no local management overlay made in 2022 and 2021.

(e) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives. Leasehold improvement is depreciated over 5 years or unexpired terms of the leases, whichever is shorter, whereas the rest is depreciated between 3 to 10 years.

Subsequent expenditure relating to tangible fixed assets that has already been recognised is added to the carrying amount of the asset only when it is probable that the future economic benefit associated with the item can be measured reliably. Other subsequent expenditure is recognised as maintenance expense in the income statement during the financial year in which it is incurred.

On disposal, the profit and loss is calculated as the difference between the net sales proceeds and the net carrying amount.

Tangible fixed assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(f) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. The balance comprises cash, balances with banks, treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition and items in the course of collection from or in transmission to other banks.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognised as an expense in the period the termination takes place.

Accounting policies (continued)

(h) Foreign currency treatment

(i) Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the Branch operates. The financial statements are presented in Macau Official Patacas ("MOP"), which is the functional currency of the Branch.

(ii) Foreign currency transactions and balances

Transactions in foreign currencies are measured using exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into MOP at the exchange rate at the end of the reporting period. Foreign exchange differences arising from monetary translations are recognised in the income statement; non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. 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.

(i) Current and deferred taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Branch operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that has been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

(j) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Branch of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Provision is made in respect of paid leave entitlement accumulated during the year, which can be carried forward into future periods for compensated absence or payment in lieu if the employee leaves employment.

The Branch provides defined contribution scheme to staff members in accordance with the relevant laws and regulations.

Accounting policies (continued)

(k) Provisions other than impairment on financial assets

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from past events and a reliable estimate can be made as to the amount of the obligation. Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Branch; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(l) Financial guarantees

Financial guarantees are contracts that require the Branch to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of loans or debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

(m) Related parties

For the purposes of these financial statements, parties are considered to be related to the Branch if the Branch has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Branch and the party are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities which are under the significant influence of related parties of the Branch and post employment benefit scheme. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Branch, the Head Office and its holding companies, directly or indirectly, including any directors (whether executive or otherwise) and Executive Committee members of the Head Office and its holding companies.

Accounting policies (continued)

(n) Accounting policies applicable prior to 1 January 2022

Loans and advances to customers

Loans and advances to customers include loans and advances originated or acquired by the Branch, which are not intended to be sold in the short term and have not been classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when they are repaid, sold or written off, with substantially all the risks and reward of transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment allowances.

Provision for bad and doubtful debts

Provisions for bad and doubtful debts are made in reference to the provisioning guidelines pursuant to AMCM Notice No.18/93 ("AMCM's Provisioning Guidelines"). The Branch assesses losses for impaired loans and advances when there is objective evidence that impairment of a loan or portfolio of loans has occurred or portfolio of loans. The Branch assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired and made individual assessment to arrive at specific provision to such loan. For loans where specific provisions are not individually provided, general provisions are calculated on a collective basis to cover losses which have been incurred but not yet been identified, and such estimation is made reference to the AMCM's Provisioning Guidelines.

Changes in accounting policies

(a) Reconciliation between the New MFRS and the MFRS

The following tables show the impacts on the financial statements of the branch upon adoption of new and amended standards and interpretations and establishment of regulatory reserve on:

- the statement of financial position at 31 December 2021 (note i)
- the statement of changes in head office account at 31 December 2021 (note ii)

Changes in accounting policies (continued)

(a) Reconciliation between the New MFRS and the MFRS (continued)

(i) Reconciliation of statement of financial position at 31 December 2021 and 1 January 2022

	31 December 2021 As originally presented MOP '000	Reclassification of interest receivable MOP '000	Recognition of expected credit loss MOP '000	Establishment of regulatory reserve MOP '000	1 January 2022 MOP '000
ASSETS					
Cash and balances with banks	4,041,038	-	-	-	4,041,038
Deposits with AMCM	195,751	-	(35)	-	195,716
Loans and advances to customers	14,358,974	9,489	148,381	-	14,516,844
Other assets	30,005	(9,489)	-	-	20,516
Tangible fixed assets	22,444	-	-	-	22,444
Deferred income tax assets	1,541	-	(1,541)	-	-
Total Assets	18,649,753	-	146,805	-	18,796,558
LIABILITIES					
Deposits from customers and banks	1,725,306	-	-	-	1,725,306
Deposits and balances from Head Office	15,406,022	-	-	-	15,406,022
Other liabilities	30,794	-	338	-	31,132
Current taxation	18,096	-	17,796	-	35,892
	17,180,218	-	18,134	-	17,198,352

Changes in accounting policies (continued)

(a) Reconciliation between the New MFRS and the MFRS (continued)

(i) Reconciliation of statement of financial position at 31 December 2021 and 1 January 2022 (continued)

	31 December 2021 As originally presented MOP ’000	Reclassification of interest receivable MOP ’000	Recognition of expected credit loss MOP ’000	Establishment of regulatory reserve MOP ’000	1 January 2022 MOP ’000
HEAD OFFICE ACCOUNT					
Specific regulatory reserve	-	-	-	-	-
General regulatory reserve	-	-	-	151,457	151,457
Head office account	1,469,535	-	128,671	(151,457)	1,446,749
	1,469,535	-	128,671	-	1,598,206
Total Head Office Account and Liabilities	18,649,753	-	146,805	-	18,796,558

Changes in accounting policies (continued)

(a) Reconciliation between the New MFRS and the MFRS (continued)

(ii) Reconciliation of statement of changes in head office account at 31 December 2021 and 1 January 2022

	General regulatory reserve MOP	Retained profits MOP	Total MOP
Head Office account at 31 December 2021 under MFRS	-	1,469,535	1,469,535
Recognition of expected credit loss	-	148,008	148,008
Recognition of current tax liabilities	-	(17,796)	(17,796)
Recognition of deferred income tax assets	-	(1,541)	(1,541)
Establishment of regulatory reserve	151,457	(151,457)	-
Head Office account at 1 January 2022 under New MFRS with establishment of regulatory reserve	151,457	1,394,449	1,598,206

Changes in accounting policies (continued)

(b) IFRS 9: Classification and measurement

The following table shows the original measurement categories in accordance with the previous accounting policies and the new measurement categories under IFRS 9 for the Branch's financial assets as at 1 January 2022. There were no changes to the classification and measurement categories under IFRS 9 for the Branch's financial liabilities as at 1 January 2022.

	Original classification under previous accounting policies	New classification under IFRS 9	Original carrying amount under previous accounting policies MOP '000	New carrying amount under IFRS 9 MOP '000
Financial assets				
Cash and balances with banks	Loans & receivables	Amortised cost	4,041,038	4,041,038
Deposits with AMCM	Loans & receivables	Amortised cost	195,751	195,716
Loans and advances to customers	Loans & receivables	Amortised cost	14,358,974	14,516,844
			18,595,763	18,753,598

Material related-party transactions

(a) Policy for related party transactions

The Branch entered into transactions with its Head Office, a subsidiary of Head Office and other related companies in the ordinary course of its interbank activities including the acceptance and placement of interbank deposits, correspondent banking transactions and off-balance sheet transactions. The activities were priced at mutually agreed rates at the time of the transactions.

(b) Transactions with Head Office, a subsidiary of Head Office and other related companies

The aggregate amount of income and expenses arising from these transactions during the year 2022 and 2021, and the total contract sum of off-balance sheet transactions at the year-end are as follows:

	2022 MOP'000	2021 MOP'000
Interest income from Head Office and a subsidiary of Head Office	25,369	3,518
Interest expenses to Head Office	(185,582)	(22,499)
Fee and commission paid to Head Office and a subsidiary of Head Office	(6,055)	(6,819)
Management fee paid to Head Office	(9,682)	(8,592)
Operating expenses paid to other related companies	(1,975)	(797)

The balances with Head Office and a subsidiary of Head office at 31 December 2022 and 31 December 2021 are as follows:

(i) Assets

	2022 MOP'000	2021 MOP'000
Cash and balances with banks		
- Demand deposits	170,610	192,923
- Placement	1,877,234	1,256,978
Other assets		
- Interest receivables	12,137	429

(ii) Liabilities

	2022 MOP'000	2021 MOP'000
Deposits and balances from banks		
- Demand and placements from banks	16,020,437	15,406,022
Other liabilities		
- Interest payable	38,593	2,269

Material related-party transactions (continued)

(c) Key management personnel's remuneration

The remuneration of key management personnel, which is included in "staff cost", is as follows:

	2022 MOP'000	2021 MOP'000
Executive officers	3,106	2,966

(d) Material transactions with key management personnel

As at year ended 31 December 2022 and 31 December 2021, the Branch did not provide credit facilities to key management personnel of the Branch and its Head Office, their close family members and companies controlled or significantly influenced by them.

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and leasing activities and also from certain other products such as guarantees. The Branch follows the Head office on the dedicated standards, policies and procedures in place to control and monitor risk from all such activities.

There are dedicated functions, reported to Branch management and further the Chief Risk Officer of Head Office, responsible for centralised management of credit risk through:

- formulating credit policies on approval process, post disbursement monitoring, recovery process and large exposure;

- issuing guidelines on lending to specified market sectors, industries and products; the acceptability of specific classes of collateral or risk mitigations and valuation parameters for collateral;

- undertaking an independent review and objective assessment of credit risk for all commercial non-bank credit facilities in excess of designated amount prior to the facilities being committed to customers;

- controlling exposures to selected industries, counterparties, countries and portfolio types etc. by setting limits;

- maintaining and developing credit risk rating/facility grading process to categorise exposures and facilitate focused management;

- reporting to senior executives and various committees on aspects of the Branch's loan portfolio;

- managing and directing credit-related systems initiatives; and

- providing advice and guidance to business units on various credit-related issues.

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees.

The Branch has adopted the requirements of IFRS 9 from 1 January 2022. Under IFRS 9, the scope of impairment now covers amortised cost financial assets, loan commitments and financial guarantees.

Credit risk (continued)

Impairment is calculated in three stages and financial instruments are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase/decrease in credit risk in the relevant reporting period. After the allocation, the measurement of expected credit loss ("ECL"), which is the product of probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), will reflect the change in risk of default occurring over the remaining life of the instruments.

Credit risk (continued)

Geographic distribution of exposure

As at 31 December 2022

	Total exposures MOP '000	Stage 1 ECL MOP '000	Stage 2 ECL MOP '000	Stage 3 ECL MOP '000	Total ECL MOP '000
Loans and advances to customers					
– Macau	12,265,059	(3,097)	(4,448)	(15,211)	(22,756)
– Hong Kong	1,318,237	(796)	(30)	-	(826)
– Others	102,971	3	(9)	-	(6)
	13,686,267	(3,890)	(4,487)	(15,211)	(23,588)
Financial guarantees, loan commitments and other credit related contingent liabilities					
– Macau	5,296,467	(248)	(63)	-	(311)
– Hong Kong	70,134	(7)	(29)	-	(36)
– Others	-	-	-	-	-
	5,366,601	(255)	(92)	-	(347)

All other financial assets held by the Branch only have Macau exposures.
There is no customer grouped under banks, governments and/or public sector entities.

Credit risk (continued)

Geographic distribution of exposure (continued)

As at 31 December 2021

	Total exposures MOP '000	General provision MOP '000	Specific provision MOP '000	Total provision MOP '000
Loans and advances to customers				
– Macau	13,084,938	(140,229)	(36,217)	(176,446)
– Hong Kong	1,373,238	(14,759)	-	(14,759)
– Others	93,003	(1,000)	-	(1,000)
	14,551,179	(155,988)	(36,217)	(192,205)
Financial guarantees, loan commitments and other credit related contingent liabilities				
– Macau	5,497,090	-	-	-
– Hong Kong	65,591	-	-	-
– Others	-	-	-	-
	5,562,681	-	-	-

All other financial assets held by the Branch only have Macau exposures.
There is no customer grouped under banks, governments and/or public sector entities.

Credit risk (continued)

Industry distribution of exposures of loans and advances

As at 31 December 2022

	Gross loans and advances MOP '000	Individually impaired loans and advances MOP '000	Overdue loans and advances# MOP '000	Stage 1 ECL MOP '000	Stage 2 ECL MOP '000	Stage 3 ECL MOP '000
Agriculture and fisheries	-	-	-	-	-	-
Mining industries	-	-	-	-	-	-
Manufacturing industries	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-
Construction and public works	137,567	-	-	(42)	-	-
Wholesale and retail trade	4,665,705	15,211	-	(1,298)	(401)	(15,211)
Restaurants, hotels and similar	-	-	-	-	-	-
Transport, warehousing and communications	-	-	-	-	-	-
Non-monetary financial institutions	-	-	-	-	-	-
Gaming	-	-	-	-	-	-
Exhibition and conference	-	-	-	-	-	-
Education	-	-	-	-	-	-
Information technology	-	-	-	-	-	-
Individuals for house purchases	3,183,228	-	-	(8)	(1)	-
Individuals for other purposes	155,547	-	-	(35)	-	-
Others	5,544,220	-	-	(2,507)	(4,085)	-
	13,686,267	15,211	-	(3,890)	(4,487)	(15,211)

Loans and advances which have been overdue with respect to either principal or interest for periods of more than three months.

Credit risk (continued)

Industry distribution of exposures of loans and advances (continued)

As at 31 December 2021

	Gross loans and advances MOP '000	Individually impaired loans and advances MOP '000	Overdue loans and advances# MOP '000	Specific provision MOP '000	General provision MOP '000
Agriculture and fisheries	-	-	-	-	-
Mining industries	-	-	-	-	-
Manufacturing industries	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-
Construction and public works	342,273	-	-	-	(3,679)
Wholesale and retail trade	5,168,284	37,592	37,592	(36,217)	(55,143)
Restaurants, hotels and similar	-	-	-	-	-
Transport, warehousing and communications	-	-	-	-	-
Non-monetary financial institutions	-	-	-	-	-
Gaming	-	-	-	-	-
Exhibition and conference	-	-	-	-	-
Education	-	-	-	-	-
Information technology	-	-	-	-	-
Individuals for house purchases	3,294,621	-	-	-	(35,410)
Individuals for other purposes	155,035	-	-	-	(1,666)
Others	5,590,966	-	-	-	(60,090)
	14,551,179	37,592	37,592	(36,217)	(155,988)

Loans and advances which have been overdue with respect to either principal or interest for periods of more than three months.

Credit risk (continued)

Maturity analysis on assets and liabilities

As at 31 December 2022

	Repayable on demand MOP'000	*1 month or less but not repayable on demand MOP'000*	*3 months or less but over1 month MOP'000*	*1 year or less but over 3 months MOP'000*	*3 years or less but over 1 year MOP'000*	*After 3 years MOP'000*	*Indefinite period MOP'000*	*Total MOP'000*
Assets								
Loans and advances to customers	63,290	4,025,900	624,251	948,816	4,866,184	3,134,238	-	13,662,679
Cash and balances with and loans and advances to banks	4,175,513	812,774	501,560	614,739	-	-	-	6,104,586
Certificates of deposits held	-	-	-	-	-	-	-	-
Securities issued by Macau SAR Government and/or AMCM	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-
Liabilities								
Deposits and balances of banks and financial institutions	3,723,988	4,324,173	437,552	7,534,724	-	-	-	16,020,437
Deposits from public sector entities	-	-	-	-	-	-	-	-
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Deposits from non-bank customers	969,716	289,028	239,678	419,837	14,066	-	-	1,932,325
Certificates of deposits issued	-	-	-	-	-	-	-	-
Other securities issued	-	-	-	-	-	-	-	-

Credit risk (continued)

Maturity analysis on assets and liabilities (continued)

As at 31 December 2021

	Repayable on demand MOP'000	*1 month or less but not repayable on demand MOP'000*	*3 months or less but over1 month MOP'000*	*1 year or less but over 3 months MOP'000*	*3 years or less but over 1 year MOP'000*	*After 3 years MOP'000*	*Indefinite period MOP'000*	*Total MOP'000*
Assets								
Loans and advances to customers	7,955	3,582,219	397,050	1,052,695	1,615,933	7,703,122	-	14,358,974
Cash and balances with and loans and advances to banks	2,946,506	855,341	272,046	162,896	-	-	-	4,236,789
Certificates of deposits held	-	-	-	-	-	-	-	-
Securities issued by Macau SAR Government and/or AMCM	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-
Liabilities								
Deposits and balances of banks and financial institutions	2,423,432	3,548,213	425,611	9,008,766	-	-	-	15,406,022
Deposits from public sector entities	-	-	-	-	-	-	-	-
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Deposits from non-bank customers	1,296,776	377,183	35,644	15,703	-	-	-	1,725,306
Certificates of deposits issued	-	-	-	-	-	-	-	-
Other securities issued	-	-	-	-	-	-	-	-

Credit risk (continued)

Overdue loans and advances to banks

There were no overdue loans and advances to banks as at 31 December 2022 and 31 December 2021.

Overdue loans and advances to non-banks customers

As at 31 December 2022

	Gross loans and advances MOP'000	% of total loans and advances to non-bank customers MOP'000	Collateral value MOP'000	Individually impaired allowances MOP'000
Loans and advances to non-bank customers which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	-	-	-	-
- more than six months but not more than one year	-	-	-	-
- more than one year	15,211	0.11%	-	(15,211)
	15,211	0.11%	-	(15,211)

As at 31 December 2021

	Gross loans and advances MOP'000	% of total loans and advances to non-bank customers MOP'000	Collateral value MOP'000	Individually impaired allowances MOP'000
Loans and advances to non-bank customers which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	-	-	-	-
- more than six months but not more than one year	-	-	-	-
- more than one year	37,592	0.26%	14,214	(36,217)
	37,592	0.26%	14,214	(36,217)

Overdue other assets

There were no overdue other assets as at 31 December 2022 and 31 December 2021.

Credit risk (continued)

Credit quality of financial instruments

According to Notice No. 012/2021-AMCM, the Branch should classify the financial assets into five credit quality classifications: Pass, Special mention, Sub-standard, Doubtful and Loss, based on the credit risk of the financial assets.

The branch has a risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Branch to support the calculation of minimum credit regulatory capital requirement. This includes a range of granular internal credit rating grades assigned to wholesale and retail customers, and the external ratings attributed by external agencies to debt securities.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related customer risk rating ('CRR') to external credit rating.

Wholesale lending

A CRR 10-grade scale summaries a more granular underlying 23-grade scale of obligor probability of default ('PD'). All corporate customers are rated using the 10- or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

Retail lending

Retail lending credit quality is based on a 12-month probability-weighted PD.

The Branch's management assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessments and IFRS 9 stages 1 and 2, though typically the lowered credit quality bands exhibit a higher proportion in stage 2.

The following table illustrates the credit risk exposures of financial instruments of the Branch in accordance with the asset classification required by Notice No. 012/2021-AMCM.

Credit risk (continued)

Credit quality of financial instruments (continued)

	31 December 2022						
	Pass MOP '000	Special Mention MOP '000	Sub-Standard MOP '000	Doubtful MOP '000	Loss MOP '000	Expected Credit Loss MOP '000	Net Exposure MOP'000
Cash and balance with bank							
- Stage 1	5,911,048	-	-	-	-	(85)	5,910,963
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Deposits with AMCM							
- Stage 1	193,623	-	-	-	-	-	193,623
- Stage 2	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-
Loans and advances to customers							
- Stage 1	11,550,919	47,689	-	-	-	(3,890)	11,594,718
- Stage 2	2,072,352	96	-	-	-	(4,487)	2,067,961
- Stage 3	-	-	-	-	15,211	(15,211)	-
Financial guarantees, loan commitments and other credit related contingent liabilities							
- Stage 1	4,681,076	-	-	-	-	(254)	4,680,822
- Stage 2	685,525	-	-	-	-	(93)	685,432
- Stage 3	-	-	-	-	-	-	-
	25,094,543	47,785	-	-	15,211	(24,020)	25,133,519

Credit risk (continued)

Credit quality of financial instruments (continued)

	31 December 2021				
	Not pass due for more than 3 months MOP ’000	Pass due for more than 3 months MOP ’000	Specific Provision MOP ’000	General Provision MOP ’000	Net exposure MOP ’000
Cash and balance with bank	4,041,038	-	-	-	4,041,038
Deposits with AMCM	195,751	-	-	-	195,751
Loans and advances to customers	14,513,587	37,592	(36,217)	(155,988)	14,358,974
Financial guarantees, loan commitments and other credit related contingent liabilities	5,562,681	-	-	-	5,562,681
	24,313,057	37,592	(36,217)	(155,988)	24,158,444

Market risk

Market risk is the risk of market variables, such as foreign exchange rates, interest rates, equity and commodity prices that will move and result in profits and losses to the Branch. The Branch's market risk arises from customer-related business and from position taking.

Market risk is managed within risk limits approved by the Head Office. Risk limits are set by product and risk type with market liquidity being a principal factor in determining the level of limits set.

Interest rate risk

Interest rate risks comprise those originating from treasury activities as well as the structural interest rate exposures. Structural interest rate risk arises from the differing repricing characteristics of commercial banking assets and liabilities, including non-interest bearing liabilities. Structural interest rate risks were transferred to Head Office based on contractual or behavioural maturity.

Treasury manages interest rate risks within the limits approved by Head Office and under the monitoring of the Asset and Liability Management Committee ("ALCO") of Head Office.

The estimates and associated assumptions regarding to loan prepayments and behaviour of non-maturity deposits are based on historical experience and various other factors that are believed to be reasonable.

Interest rate risks are measured and monitored by Treasury on an ongoing basis. Besides, the Branch prepares, monitors and submits interest rate risk return to AMCM quarterly in accordance with the guideline based on circular no. 051/B/2008-DSB/AMCM.

Operational risk

The Head Office's established framework for operational risk management includes identification and vigorous assessment of operational risks inherent in processes, activities and products and adequate management information on analysis of operational loss events and data. The Operational Risk Management Committee in Head Office oversees the implementation of this framework at the Branch's level.

Operational risk is mitigated by well-established internal control system, adequate insurance cover, backup systems and contingency business resumption plans.

Foreign exchange risk

The Branch's foreign exchange exposures mainly comprise foreign exchange dealing by Global Markets of Head Office and currency exposures originated by its banking business. Both of them are transferred to Global Markets where they are centrally managed within foreign exchange position limits approved by the Head Office.

Structural foreign exchange limit of USD50 million arising from capital investment in Macau Branch were granted by ALCO. ALCO is thus fully responsible for the monitoring and management of such limits.

As at 31 December 2022

	Spot assets MOP'000	Spot liabilities MOP'000	Forward purchases MOP'000	Forward sales MOP'000	Net options position MOP'000	Net long (or net short) position MOP'000
Chinese renminbi	33,697	(33,670)	-	-	-	27
Hong Kong dollars	17,170,020	(17,181,275)	-	-	-	(11,255)
US dollars	567,129	(566,312)	-	-	-	817
Other foreign currencies	12,957	(12,968)	-	-	-	(11)
	17,783,803	(17,794,225)	-	-	-	(10,422)

As at 31 December 2021

	Spot assets MOP'000	*Spot liabilities* MOP'000	*Forward purchases* MOP'000	*Forward sales* MOP'000	*Net options position* MOP'000	*Net long (or net short) position* MOP'000
Chinese renminbi	50,527	(49,764)	-	-	-	763
Hong Kong dollars	14,233,976	(14,241,565)	-	-	-	(7,589)
US dollars	2,598,076	(2,598,056)	-	-	-	20
Other foreign currencies	50,295	(50,282)	-	-	-	13
	16,932,874	(16,939,667)	-	-	-	(6,793)

Liquidity risk

The Branch has established policies and procedures to monitor and control its liquidity position on a daily basis by adopting a cash flow management approach. The liquidity management process is monitored by the ALCO of Head Office and is reported to the Executive Committee and the Board of Directors of Head Office.

Besides, the Branch prepares and monitors daily liquidity ratio in order to comply with the liquidity rule based on notice no. 002/2013-AMCM.

The daily amount of cash in hand and in banks shall not be less than the sum of the following percentages calculated on the average of the basic liabilities classified by terms and assessed in the preceding week:

(i) 3% of liabilities at sight;
(ii) 2% of liabilities up to three months excluding liabilities at sight; and
(iii) 1% of liabilities beyond three months.

The daily amount of the balances of the current accounts in MOP with the AMCM in the name of the Branch shall not be less than 70% of the minimum amount of cash in hand.

During the annual reporting period of:	2022 MOP'000	2021 MOP'000
The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	35,554	47,726
The arithmetic mean of the average weekly amount of cash in hand	252,967	197,636
The arithmetic mean of the specified liquid assets at the end of each month	1,460,645	1,920,018
The average ratio of specified liquid assets to total basic liabilities at the end of each month	85%	107%
The arithmetic mean of one-month liquidity ratio in the last week of each month	126%	116%
The arithmetic mean of three-month liquidity ratio in the last week of each month	129%	139%

List of the shareholders with qualifying holdings

<u>Hang Seng Bank Limited</u>

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 31 December 2022, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, the interests of The Hongkong and Shanghai Banking Corporation Limited are recorded as the interests of HSBC Asia Holdings Limited and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 31 December 2022, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Names of the members of the company boards

Hang Seng Bank Limited

List of Directors
On 4 May 2023, the members of the board of Directors of Hang Seng Bank Limited are set out below.

Independent Non-Executive Chairman
Irene LEE Yun Lien

Executive Directors
Diana Ferreira CESAR (Chief Executive)
SAW Say Pin

Non-executive Directors
Kathleen GAN Chieh Huey
David LIAO Yi Chien

Independent Non-Executive Directors
Cordelia CHUNG
Clement KWOK King Man
Patricia LAM Sze Wan
LIN Huey Ru
Kenneth NG Sing Yip
WANG Xiao Bin

Consolidated capital ratios

Hang Seng Bank Limited

The Hong Kong Monetary Authority (“HKMA”) supervises the Group on a consolidated and solo-consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Certain non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

The Group uses the advanced internal ratings-based approach (‘IRB’) to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme exposures, the Group uses the look-through approach to calculate the risk-weighted amount. For counterparty credit risk, the Group uses standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

During the year, the Group has complied with all of the externally imposed capital requirements by the HKMA.

Consolidated capital ratios (continued)

Capital structure

(Figures in HK$ million)	**2022**	**2021**
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	143,883	144,651
- Shareholders' equity per Condensed Consolidated Balance Sheet	183,896	184,332
- Additional Tier 1 ('AT1') perpetual capital instruments	(11,744)	(11,744)
- Unconsolidated subsidiaries	(28,269)	(27,937)
Non-controlling interests	-	-
- Non-controlling interests per Condensed Consolidated Balance Sheet	65	84
- Non-controlling interests in unconsolidated subsidiaries	(65)	(84)
Regulatory deductions to CET1 capital	(27,461)	(28,052)
- Cash flow hedging reserve	472	2
- Changes in own credit risk on fair valued liabilities	(6)	(6)
- Property revaluation reserves[1]	(24,418)	(24,617)
- Regulatory reserve	-	(441)
- Intangible assets	(3,011)	(2,359)
- Deferred tax assets net of deferred tax liabilities	(346)	(90)
- Valuation adjustments	(152)	(126)
- Excess of total expected loss amount over total eligible provisions under the IRB	-	(415)
Total CET1 Capital	116,422	116,599
AT1 Capital		
Total AT1 capital before and after regulatory deductions	11,744	11,744
- Perpetual capital instruments	11,744	11,744
Total AT1 Capital	11,744	11,744
Total Tier 1 ('T1') Capital	**128,166**	**128,343**
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	11,555	11,460
- Property revaluation reserves[1]	10,988	11,078
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	567	382
Regulatory deductions to T2 capital	(1,045)	(1,045)
- Significant capital investments in unconsolidated financial sector entities	(1,045)	(1,045)
Total T2 Capital	**10,510**	**10,415**
Total Capital	**138,676**	**138,758**

[1] *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

Consolidated capital ratios (continued)

(Figures in HK$ million)	**2022**	**2021**
Risk-weighted assets	764,726	734,128
Capital ratios		
CET1 capital ratio	15.2%	15.9%
Tier 1 capital ratio	16.8%	17.5%
Total capital ratio	18.1%	18.9%

Consolidated assets, liabilities and profits positions

Hang Seng Bank Limited *(Figures in HK$ million)*	**2022**	**2021**
Total assets	1,893,805	1,820,185
Total liabilities	1,709,844	1,635,769
Total loans and advances	931,334	997,397
Total customer deposits including current, savings and other deposit accounts and certificates of deposit and other debt securities in issue	1,388,841	1,338,800
Pre-tax profit	11,439	16,385