China Construction Bank Corporation
Macau Branch

Disclosure of Financial Information
31 December 2023

(Audited)
According to The Monetary Authority of Macao (AMCM) Circular No. 004/B/2024-DSB/AMCM
(Effective Date :28/03/2024)
<Guideline on Disclosure of Financial Information>

Summary of the Management Report

In the past year, the global economy struggled to recover amidst the impact of negative factors such as the COVID-19, the Russia-Ukraine war, and the Israeli-Palestinian conflict, while the economy in the Chinese mainland saw steady growth and demonstrated strong development momentum, and Macao's economy vigorously rebounded against this backdrop. In the face of the complex and changing political and economic situation, CCB Macau Branch (hereinafter referred to as "CCB Macau Branch" or the "Branch") adhered to the business philosophy of "prudence and compliance" and the customer-centered and market-oriented principle, focused on risk prevention and control as well as compliance management, and achieved coordinated development in terms of scale, quality and efficiency.

With prudent operation, sophisticated management, Greater Bay Area-based approach and devotion to the local area, the Branch aims to create a path of high-quality development with CCB's characteristics. In the past year, the Branch has seen steady development of assets and business, excellent and stable asset quality, and steady consolidation of operating efficiency. It continued to integrate into the local market and serve the development of Macao SAR's real economy. With continuous innovation in cross-border linkage, it promoted the upgrade of financial services in the Greater Bay Area. The application of financial technology was enhanced and the digital operation was actively carried out. As a result, the Branch's sophisticated management tools have been continuously optimized, ability to serve people's livelihoods has been enhanced, and social contribution has been further improved.

In the new year, as Macao's economy continues to rebound, the Branch will adhere to the main tune of "giving priority to compliance, pursuing sound development, and seeking progress while maintaining stability", and continue to enhance its overall operation and management capability. The Branch will actively respond to the Macao SAR Government's policy guidelines of "consolidating recovery, focusing on diversification, optimizing people's livelihood and enhancing development", firmly grasp the opportunities of deepening the construction and development of the "Guangdong-Macao In-Depth Cooperation Zone in Hengqin", and continue to serve the social, economic and corporate development of Macao. In addition, it will promote the moderate diversification of Macao's economy to help Macao better integrate into the overall development of China, contribute to the long-term prosperity and stability of Macao's society and economy, and strive to celebrate the 75th anniversary of the People's Republic of China and the 25th anniversary of the reunification of Macao with the motherland with excellent results.

China Construction Bank Corporation Macau Branch

Huang Xia

General Manager

March 26, 2024

中国建设银行
China Construction Bank
澳門分行

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS
To the management of China Construction Bank Corporation Macau Branch

The accompanying summary financial statements of China Construction Bank Corporation Macau Branch (the “Branch”) set out on pages 4 to 6, which comprise the statement of financial position as at 31 December 2023, the statement of profit or loss and 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 2023. We expressed an unmodified audit opinion on those financial statements in our independent auditor’s report dated 26 March 2024. 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. 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 the Article 86(1) of Law No. 13/2023 of 14 August (Financial System Act).

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 Branch for the year ended 31 December 2023 are consistent, in all material respects, with those audited financial statements, in accordance with the Article 86(1) of Law No. 13/2023 of 14 August (Financial System Act).

CHAN Wai   Certified Public Accountant
Ernst & Young
Macao, 26 March 2024

1. STATEMENT OF FINANCIAL POSITION

31 December 2023

	2023 MOP	2022 MOP
ASSETS		
Cash and balance with banks	11,208,267,422	5,948,620,091
Deposits with Monetary Authority of Macao	485,158,290	821,580,077
Placements with banks	42,696,299,214	54,501,070,441
Advances and other accounts	32,884,840,406	54,279,353,049
Investments in securities	23,356,314,079	19,373,657,784
Derivatives financial instruments	284,511,165	769,309,753
Property and equipment	23,941,939	17,873,699
Other assets	321,453,528	1,228,831,252
Deferred tax assets	14,964,271	11,238,171
Total assets	111,275,750,314	136,951,534,317
LIABILITIES		
Deposits and balances with banks and other financial institutions	56,675,854,782	78,288,457,925
Deposits from customers	14,192,314,639	19,467,020,333
Other liabilities	462,104,097	436,072,589
Derivatives financial instruments	271,462,041	236,773,087
Debt securities issued	36,026,823,805	35,089,660,071
Current tax payable	42,546,464	78,357,004
Total liabilities	107,671,105,828	133,596,341,009
HEAD OFFICE ACCOUNT		
Head Office fund	800,000,000	800,000,000
Retained earnings	2,771,480,098	2,569,594,269
General regulatory reserves	50,643,303	33,693,706
Specific regulatory reserves	-	23,570,626
Other reserves	(17,478,915)	(71,665,293)
Total Head Office account	3,604,644,486	3,355,193,308
Total liabilities and Head Office account	111,275,750,314	136,951,534,317

Huang Xia

General Manager

2. STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	2023 MOP	2022 MOP
Interest income	4,786,645,020	3,718,884,307
Interest expense	(4,539,035,869)	(3,317,372,396)
NET INTEREST INCOME	247,609,151	401,511,911
Fee and commission income	429,139,036	468,700,832
Fee and commission expenses	(319,300,604)	(387,266,654)
NET FEE AND COMMISSION INCOME	109,838,432	81,434,178
Net trading income	26,170,786	271,977,841
Net gain in financial instruments	16,798,236	5,037,262
Other operating income	8,495	392,775
Operating expenses	(188,052,374)	(190,674,824)
	212,372,726	569,679,143
Net charge of impairment allowances	6,296,098	(44,412,977)
PROFIT BEFORE TAX	218,668,824	525,266,166
Income tax expense	(23,404,024)	(61,650,978)
PROFIT FOR THE YEAR	195,264,800	463,615,188

3. STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023 MOP	2022 MOP
PROFIT FOR THE YEAR	195,264,800	463,615,188
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	(6,998,965)	(96,979,778)
Release upon disposal/redemption reclassified to profit or loss	65,806,164	18,842,520
Changes in allowance for expected credit losses	2,768,231	5,709,780
Income tax effect	(7,389,052)	8,691,297
	54,186,378	(63,736,181)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	54,186,378	(63,736,181)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	54,186,378	(63,736,181)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	249,451,178	399,879,007

4. STATEMENT OF HEAD OFFICE ACCOUNT

Year ended 31 December 2023

	Head Office fund MOP	Fair value reserve MOP	Regulatory reserve MOP	Retained earnings MOP	Total MOP
At 1 January 2022	800,000,000	(7,929,112)	223,819,095	1,939,424,318	2,955,314,301
Profit for the year	-	-	-	463,615,188	463,615,188
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	-	-
Changes in fair value of debt investments at fair value through other comprehensive income, net of tax	-	(69,445,961)	-	-	(69,445,961)
Net amount reclassified to the statement of profit or loss on sale of debt investments at fair value through other comprehensive income		-	-	-	-
Net changes in allowance of expected credit losses of debt investments at fair value through other comprehensive income		5,709,780	-	-	5,709,780
Reserve arising from foreign currency translation	-	-	-	-	-
Transfer from regulatory reserve	-	-	(166,554,763)	166,554,763	-
At 31 December 2022	800,000,000	(71,665,293)*	57,264,332*	2,569,594,269	3,355,193,308
Profit for the year	-	-	-	195,264,800	195,264,800
Other comprehensive income for the year:					
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	-	-
Changes in fair value of debt investments at fair value through other comprehensive income, net of tax	-	51,418,147	-	-	51,418,147
Net amount reclassified to the statement of profit or loss on sale of debt investments at fair value through other comprehensive income	-	-	-	-	-
Net changes in allowance of expected credit losses of debt investments at fair value through other comprehensive income	-	2,768,231	-	-	2,768,231
Reserve arising from foreign currency translation	-	-	-	-	-
Total comprehensive income for the Year	-	54,186,378	-	195,264,800	249,451,178
Transfer from regulatory reserve	-	-	(6,621,029)	6,621,029	-
At 31 December 2023	800,000,000	(17,478,915)*	50,643,303*	2,771,480,098	3,604,644,486

Fair value reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income (formerly known as available-for-sale financial assets) until the financial assets are derecognized and is dealt with in accordance with the accounting policies adopted for the measurement of these financial assets at fair value.

Regulatory reserve is established to satisfy the regulatory requirements Notice no.12/2021-AMCM issued by Monetary Authority of Macao ("AMCM"). Movement in this reserve is made directly through retained earnings.

*These reserve accounts comprise the reserves of MOP33,164,388 (2022: MOP14,400,961) in the statement of financial position.

5. STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	2023 MOP	2022 MOP
OPERATING ACTIVITIES		
Profit before tax	218,668,824	525,266,166
Adjustments for:		
Depreciation	5,481,654	7,036,308
Charge for impairment allowances	(6,296,098)	44,412,977
Interest income from investments in debt securities	(676,988,171)	(321,162,533)
Other interest income	(4,109,656,849)	(3,397,721,774)
Interest expense	4,539,035,869	3,317,372,396
Dividend income	(4,506)	(4,506)
Gain on disposal/redemption of investments in debt securities, net	(14,424,618)	(3,787,316)
Exchange adjustments	(153,529,817)	79,381,504
	(197,713,712)	250,793,222
Decrease in placements with banks with original maturity more than three months	14,024,278,459	8,848,607,126
Decrease in minimum reserves with the monetary authorities	100,177,000	5,492,000
Decrease/ (Increase) in positive value of derivative financial instruments	484,798,590	(107,372,123)
Decrease in advances and other accounts	20,059,967,058	19,512,543,353
Decrease in investment in securities	444,547,119	395,541,268
Decrease in other assets	907,377,722	1,443,695,086
Decrease in deposits and balances with banks and other financial institutions	(20,290,585,338)	(29,621,562,682)
Decrease in deposits from customers	(5,274,705,694)	(1,714,018,585)
Increase in debt securities issued	937,163,734	4,063,883,715
Increase/ (Decrease) in negative value of derivative financial instruments	34,688,954	(505,381,686)
Increase/ (Decrease) in other liabilities	1,938,001	(965,041,076)
Cash used in operations	11,231,931,893	1,607,179,618
Macao complementary tax paid	(70,329,716)	(46,273,450)
Interest received	5,487,789,101	4,041,953,952
Interest paid	(5,861,053,674)	(4,062,070,222)
Net cash flows from operating activities	10,788,337,604	1,540,789,898

continued/...

5. STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2023

	2023 MOP	2022 MOP
INVESTING ACTIVITIES		
Interest received from investments in debt securities	232,441,053	53,267,783
Dividends received	4,506	4,506
Purchases of investments in securities	(26,102,769,380)	(11,461,723,282)
Proceeds from disposal and redemption of investments in securities	18,824,694,595	11,210,428,758
Purchases of items of property and equipment	(11,549,894)	(1,302,238)
Net cash flows used in investing activities	(7,057,179,120)	(199,324,473)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,731,158,484	1,341,465,425
Cash and cash equivalents at beginning of year	9,959,012,984	8,617,547,559
CASH AND CASH EQUIVALENTS AT END OF YEAR	13,690,171,468	9,959,012,984
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash on hand and current accounts with banks as stated in the statement of financial position	2,139,443,605	4,216,407,148
Deposit with monetary authorities	485,158,290	822,363,918
Placements with banks with original maturity at or within three months	11,548,114,573	1,982,788,014
Less: Minimum reserves with the monetary authorities	(482,545,000)	(582,722,000)
Add: Investments in securities with original maturity less than three months	-	3,520,175,904
Cash and cash equivalents as stated in the statement of cash flows	13,690,171,468	9,959,012,984

NOTES TO CASH FLOW STATEMENT

	2023 MOP	2022 MOP
Changes in operating assets:		
Decrease in deposit with AMCM	100,177,000	5,492,000
Decrease in placements with banks with original maturity over three months	14,024,278,459	8,848,607,126
Decrease in advances and other accounts	20,059,967,058	19,512,543,353
Decrease/ (Increase) in derivative financial assets	484,798,590	(107,372,123)
Decrease in investment in securities	573,215,958	395,541,268
Decrease in prepayments and other assets	907,377,722	1,443,695,086
	36,149,814,787	30,098,506,710
Changes in operating liabilities:		
Decrease in deposits and balance with banks and other financial institutions	(20,290,585,338)	(29,621,562,682)
Decrease in deposits from customers	(5,274,705,694)	(1,714,018,585)
Increase/ (Decrease) in derivatives financial liabilities	34,688,954	(505,381,686)
Increase in debt securities issued	937,163,734	4,063,883,715
Increase/ (Decrease) in other liabilities	1,938,001	(965,041,076)
	(24,591,500,343)	(28,742,120,314)

6. CORPORATE INFORMATION

China Construction Bank Corporation Macau Branch (the "Branch") was established on 7 June 2014 in the Macao Special Administrative Region of the People's Republic of China ("Macao SAR" or "Macao"). The Branch is a licensed bank authorised under the laws of Macao SAR and regulated by rules issued by Autoridade Monetária de Macau ("AMCM"). The registered office and principal place of business of the Branch is located at 5/F, Circle Square, 61 Avenida de Almeida Ribeiro, Macao. The Branch's head office (the "Head Office") is China Construction Bank Corporation, which was established in the People's Republic of China. The Branch is a segment of China Construction Bank Corporation and is not a separately incorporated legal entity. The Branch's financial statements have been prepared solely from the books and records of the Branch and reflect those transactions recorded locally. In addition, the assets of the Branch are legally available for the satisfaction of liabilities of China Construction Bank Corporation, which are not reflected in the Branch's financial statements.

The Branch is engaged in the provision of commercial banking and related financial services.

6.1 BOARD OF DIRECTORS

At the end of 2023, the Board consisted of 15 directors, including:

Member	**Position**
Tian Guoli	Executive director
Zhang Jinliang	Executive director
Cui Yong	Executive director
Ji Zhihong	Executive director
Shao Min	Non-executive director
Tian Bo	Non-executive director
Xia Yang	Non-executive director
Liu Fang	Non-executive director
Li Lu	Non-executive director
Kenneth Patrick Chung	Independent non-executive director
Graeme Wheeler	Independent non-executive director
Michel Madelain	Independent non-executive director
William Coen	Independent non-executive director
Leung Kam Chung, Antony	Independent non-executive director
Lord Sassoon	Independent non-executive director

7.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Financial Reporting Standards set out by the Macao Special Administrative Region as promulgated under Order of the Secretary for Economy and Finance No. 44/2020 ("Macao Financial Reporting Standards" or "MFRSs").

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments, debt and equity instruments at fair value through other comprehensive income (FVOCI) all of which have been measured at fair value. These financial statements are presented in Macao Patacas ("MOP"), which is also the functional currency of the Branch. All values are rounded to the nearest MOP except when otherwise indicated.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

(a) Interest income

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Similar to interest-bearing financial assets classified as available-for-sale or held to maturity under IAS 39, 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 Branch 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.

Presentation of net interest income

Paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately in the statement of profit or loss. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

The Branch considers its net interest margin to be a key performance indicator; the measure includes both interest calculated using the effective interest method and interest recognised on a contractual basis on its financial assets/liabilities measured at FVPL other than those held for trading.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(a) Interest income (continued)

Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately in the profit or loss for both interest income and interest expense to provide symmetrical and comparable information.

The Branch’s interest income/expense are calculated using the effective interest method. Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in Net trading income.

The Branch 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 Branch 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 Branch reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Branch calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

(b) Fee and commission income

The Branch 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 Branch 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 Branch’s revenue contracts do not typically include multiple performance obligations, as explained further in below.

When the Branch provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified in below).

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

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Fee and commission income (continued)

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

Performance obligations satisfied over time include asset management, custody and other services, where the customer simultaneously receives and consumes the benefits provided by the Branch's performance as the Branch performs.

The Branch's fee and commission income from services where performance obligations are satisfied over time include the following:

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

Services provided where the Branch'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 negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees.

The Branch typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

Contract balances

The following are recognised in the statement of financial position arising from revenue from contracts with customers:

- 'Fees and commissions receivables' included under 'Other assets', which represent the Branch's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortised cost and subject to the impairment provisions of IFRS 9.
- 'Unearned fees and commissions' included under 'Other liabilities', which represent the Branch's obligation to transfer services to a customer for which the Branch has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Branch performs.

(c) Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded on hedging transactions.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Branch and when the revenue can be measured reliably, on the following bases:

(a) Interest income is recognised in the profit or loss as it is accrued on a timely basis, except in the case of non-accrual advances and other accounts where interest is recorded in an off-balance sheet account, and is not recognised in the profit or loss.
Non-accrual advances and other accounts represent the credit exposures which are overdue for more than three months. Interest income from non-accrual advances and other accounts is directly credited to the profit or loss when the interest is subsequently recovered.

(b) Fees and commission income are recognised when services are provided.

(c) Dividend income is recognised when the right to receive payment has been established.

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 Branch’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Branch has applied the practical expedient of not adjusting the effect of a significant financing component, the Branch 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 Branch 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” 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 Branch’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.

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Branch 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 Branch 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.
- 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 profit or loss when the asset is derecognised, modified or impaired.

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

The Branch 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 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.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

Upon initial recognition, the Branch 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.

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 Branch and the amount of the dividend can be measured reliably, except when the Branch 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 Branch 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 Branch and the amount of the dividend can be measured reliably.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Reclassification of financial assets

If the Branch 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 Branch's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Branch 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 Branch has transferred substantially all the risks and rewards of the asset, or (b) the Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch 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 Branch continues to recognise the transferred asset to the extent of the Branch's continuing involvement. In that case, the Branch 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 Branch 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 Branch could be required to repay.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Investments in securities

Investments in listed and unlisted equity securities are stated at cost less any identified impairment losses.

Investments in debt securities with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the management has the positive intention and ability to hold them to maturity. Held-to-maturity debt securities are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Investment in debt securities are classified as available-for-sale when they are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. After initial recognition, available-for-sale debt securities are subsequently measured at fair value, with unrealised gains or losses recognised in reserve until the debt securities are derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the debt securities are determined to be impaired, when the cumulative gain or loss is reclassified from reserve to the statement of profit or loss in other gains or losses.

Advances and other accounts

Advances and other accounts are stated in the statement of financial position after deducting specific and general provisions for impairment losses. Provisions are made against specific advances when management has doubts on the ultimate recoverability of principal or interest. Specific provision is made to reduce the carrying amount of advances and other accounts, net of any collateral, to the expected net realisable value based on management's assessment of the potential losses on those identified advances. A general impairment provision of 1% for all advances and other accounts and contingent liabilities is made. The provisions are made with reference to the rules and regulations of AMCM, and are based on estimates made by the management of the Branch, which are reviewed periodically.

Advances and other accounts together with the associated provisions are written off when there is no realistic prospect of future recovery and all collaterals have been realised or have been transferred to the Branch.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Branch 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 Branch 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 Branch assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Branch 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 Branch applies the low credit risk simplification. At each reporting date, the Branch 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 Branch reassesses the external credit ratings of the debt investments. In addition, the Branch considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (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 Branch applies the practical expedient of not adjusting the effect of a significant financing component, the Branch applies the simplified approach in calculating ECLs. Under the simplified approach, the Branch does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Branch 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 Branch chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Investments in securities

For financial assets carried at amortised cost, the amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

For available-for-sale financial investments, the Branch assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from reserve and recognised in the statement of profit or loss.

For unlisted equity securities that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, deposits, debt securities in issue, other liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value, and in the case of financial liability not at fair value through profit or loss, plus or minus transaction costs.

The Branch's financial liabilities include deposits and balances with banks and other financial institutions, derivative financial instruments, deposits from customers, debt securities in issue, tax payable and other liabilities.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Branch that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Branch's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial guarantee contracts

Financial guarantee contracts issued by the Branch are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Branch measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Derivative financial instruments

The Branch uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property 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 property and equipment are required to be replaced at intervals, the Branch 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 property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% to 3%
Leasehold improvements	over the shorter of the lease terms and 16⅔%
Furniture, fixtures and equipment	5% to 50%

No depreciation is provided on freehold land. An item of property 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.

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.

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.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Macao patacas, which is the Branch's functional currency. Foreign currency transactions recorded by the Branch is initially recorded using their respective functional currency rates prevailing at the dates of transactions. Monetary assets and liabilities 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 recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

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 Branch 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 Branch determines the transaction date for each payment or receipt of the advance consideration.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, either in other comprehensive income or directly in equity.

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 Branch 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 recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences and any carryforward of unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax losses 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.

Deferred tax assets and deferred tax liabilities are offset if and only if the Branch has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred taxes assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Social society scheme

The employees of the Branch are required to participate in a central social security scheme operated by the Macao SAR. The Branch is required to contribute a fixed amount of its payroll costs to the central social security scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central social security scheme.

Defined contribution plan

The Branch operates a defined contribution retirement benefits plan, which employees can choose to join on a voluntary basis. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable. The assets of the plan are held separately from those of the Branch in an independently administered fund. The Branch's employer contributions vest fully with the employees when contributed into the defined contribution retirement benefit plan, except when there are employees who leave the plan prior to vesting fully in the contributions, the contributions payable by the Branch are reduced by the amount of forfeited contributions.

Provisions and contingent liabilities

A provision is recognised when the Branch has a present obligation (legal or constructive) as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of each reporting period, and are discounted to present value where the effect of the time value is material. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, current accounts with banks, deposits with AMCM and placements with banks with original maturity of less than three months, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally less than three months when acquired, less minimum deposit balance with AMCM.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Branch measures its derivative financial instruments, equity investments and certain financial instruments at fair value at the end of each reporting period. 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Branch. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branch determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Branch assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Branch estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

7.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related Party Transaction

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

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

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

or

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

- (i) the entity and the Branch are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Branch are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Branch or an entity related to the Branch; (If the Branch is itself such a plan) and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Branch or to the parent of the Branch.

(c) The related party lending policy

The related parties transactions of the bank should be in line with the principles of honesty and credibility. We management the transaction in accordance with the relevant regulation of local supervisor and headquarter and conduct information disclosure and external reporting as required.

8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Branch's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods. In the process of applying the Branch's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Branch's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Classification of financial assets

The Branch's significant judgments in determining the classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Branch determines the business model for the management of financial assets at the level of portfolios and considers the factors such as how the asset's performance is evaluated and reported to key management personnel, the risks affecting the performance of financial assets and the way in which financial assets are managed, and how managers are compensated.

In assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Branch uses the following key judgements: whether the principals may change because of the changes of time distribution or amount during the life period due to the reasons such as prepayment; whether the interest includes only the time value of money, credit risk, other basic borrowing risks and the consideration of costs and profits. For example, whether the amount prepaid reflects only the principal that has not yet been paid and the interest based on the outstanding principal, as well as reasonable compensation paid for the early termination of the contract.

8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Expected credit losses

The measurement of the expected credit loss allowance for the investment in financial assets measured at amortised cost and debt instruments measured at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in note 13 to the financial statement.

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Determining the forward-looking information and weightings for different types of products/markets when measuring expected credit losses; and
- Establishing groups of financial instruments with similar risk characteristics for the purpose of measuring expected credit losses.

Detailed information about the judgements and estimates made by the Branch in the above areas is set out in note 14.3 credit risk to the financial statement.

Impairment provisions on advances and other accounts

The Branch periodically reviews its loan portfolios to assess the existing specific and general provision level. In determining whether a provision for loans and advances and trade bills should be recorded, the Branch makes reference to the requirements of AMCM and the classification of loans and advances. Where the recoverability of a loan is considered doubtful by the management but unable to obtain a full picture on the borrower's financial situation, the management will exercise their judgement and make reference to the market condition to estimate the amount of provision required against the loan at the end of the reporting period. Should the final recoverable amount differs from the amount estimated to be recoverable and reflected in the financial statements, the difference together with the consequential tax expense impact will be reflected in the financial statements in the year in which it arises.

Impairment of investments in securities

The Branch assesses impairment loss for its investments in securities. Assessment includes the risk indicators and performance of the bonds, such as external credit rating, market value etc. The Branch evaluates the possibility of impairment by taking into consideration the market performance, repayment behavior of the bond issuers and related assets performance.

8. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique. The valuation requires the Branch to determine the comparable public companies (peers) and select the price multiple. In addition, the Branch makes estimates about the discount for illiquidity and size differences. The Branch classifies the fair value of these investments as Level 3.

Income taxes

Significant estimates are required in determining the Branch's provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Branch recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or credit risk.

	2023 MOP	2022 MOP
Notional amounts of currency and interest rate contracts:		
Currency forward contracts	33,673,442,522	45,114,099,979
Interest rate swaps	160,198,980	159,812,920
	33,833,641,502	45,273,912,899

Carrying values of currency and interest rate contracts:

	Assets		Liabilities	
	2023 MOP	2022 MOP	2023 MOP	2022 MOP
Currency forward contracts	281,917,114	762,665,341	271,462,041	236,773,087
Interest rate swaps	2,594,051	6,644,412	-	-
	284,511,165	769,309,753	271,462,041	236,773,087

Summary of Credit Risk-weighted Assets
12/31/2023

Part I :Credit Risk−weighted Assets for on -balance -sheet Exposures	Part II :Credit Risk−weighted Assets for off -balance -sheet Exposures	Part III :Credit Risk−weighted Assets for Counterparty Credit Risk Exposures Arising from Derivative Contracts	Total
MOP '000 (a)	MOP '000 (b)	MOP '000 (c)	(d)=(a)+(b)+(c)
47,444,973	2,410,455	331,051	50,186,479

10. OFF-BALANCE SHEET EXPOSURES

Contingent liabilities and commitments

The following is a summary of contractual amounts of each significant class of contingent liabilities and commitments:

	2023 MOP	2022 MOP
Transaction-related contingencies	134,359,762	64,141,542
Trade-related contingencies	602,474,575	91,648,508
Acceptances	2,395,728,661	156,439
Commitments that are unconditionally cancellable without prior notice	26,024,058,388	68,311,504,925
Other commitments:		
with an original maturity of under 1 year	178,317,951	765,492,208
with an original maturity of over 1 year	3,553,515,492	1,244,957,520
	32,888,454,829	70,477,901,142

11. OPERATING LEASES

The Branch leases certain of its office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from one to eight years. At 31 December 2023, the Branch had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2023 MOP	2022 MOP
Within one year	26,133,582	21,629,843
In the second to fifth years, inclusive	79,622,298	73,393,267
Over five years	21,175,960	7,290,111
	126,931,840	102,313,221

12. LITIGATION

Litigation provisions arise out of current or potential claims or pursuits alleging non-compliance with contractual or other legal or regulatory responsibilities, which have resulted or may arise in claims from customers, counterparties or other parties in civil litigations. The Branch is of the opinion that if disclosing these events on a case-by-case basis would prejudice their outcome, then such detailed disclosures have not been included in the Branch financial statements.

13. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Branch had the following transactions with related parties during the year:

	2023 MOP	2022 MOP
Head Office		
Interest income	2,207,918,718	1,891,638,046
Interest expenses	(1,298,545,882)	(1,755,064,724)
Fee and commission income	305,600,233	390,830,588
Fee and commission expenses	(302,396,173)	(346,527,570)
Gain on disposal of trade bills	2,373,618	1,249,946
Net trading income	1,532,019	9,937,831
Other related parties		
Interest income	125,330	116,060
Fee and commission expenses	(1,528,029)	(2,521,450)
Management service fee expense	(21,749,480)	(21,273,070)

(b) Off-balance sheet exposures with related parties:

	2023 MOP	2022 MOP
Head Office		
Forward exchange rate contracts at notional amount	1,616,318,494	44,128,280,063
Interest rate swaps	160,198,980	159,812,920
Commitments that are unconditionally cancellable without prior notice	(1,936,998,813)	(1,305,464,781)
Transaction-related contingencies	(76,131,506)	(18,708,841)
Other related parties		
Forward exchange rate contracts at notional amount	30,741,108,821	941,900,517

13. RELATED PARTY DISCLOSURES (continued)

(c) Outstanding balances with related parties:

	2023 MOP	2022 MOP
Head Office		
Cash and balances with banks	922,771,465	868,052,479
Placements with banks	38,307,231,429	56,060,187,589
Advances and other accounts	2,236,600,553	2,289,354,280
Prepayment and other assets	26,661,153	55,110,223
Derivative financial assets	19,727,864	748,308,545
Deposits and balances with banks and other financial institutions	(37,366,700,345)	(55,081,216,360)
Derivative financial liabilities	(2,433,461)	(211,802,803)
Other related parties		
Cash and balance with banks	309,877,892	2,610,158,769
Advances and other accounts	3,732,297	3,721,206
Derivative financial assets	253,290,360	6,548,211
Deposits from customers	1,412,066	1,949,503
Derivative financial liabilities	(235,353,094)	(21,075,148)

(d) Transactions with key management personnel of the Branch

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Branch directly or indirectly. The Branch accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. The transactions with key management personnel of the Branch have been included in note 13 (a) and 13 (c).

(e) Compensation of key management personnel of the Branch

	2023 MOP	2022 MOP
Short-term employee benefits	2,562,776	2,037,308
Total compensation paid to key management personnel	2,562,776	2,037,308

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

14.1 Introduction and risk profile

Whilst risk is inherent in the Branch's activities, it is managed through an integrated risk management framework, including ongoing identification, measurement and monitoring, and subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities. The Branch is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non–trading risks. It is also subject to country risk and various operating and business risks.

<u>14.1.1 Risk management structure</u>

The Branch's Senior Management is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Risk Management and Internal Control Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Management and Internal Control Committee is responsible for managing risk decisions, monitoring the overall risk process and risk levels.

The Risk Management Department is the leading department responsible for the Branch's overall risk management. It is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained and for monitoring compliance with risk principles, policies and limits across the Branch. It works closely with and reports to the Risk Management and Internal Control Committee to ensure that procedures are compliant with the overall framework.

14.2 Risk governance and risk management strategies and systems

The Branch's risk management governance is guided by the risk appetite as expressed by the Head Office and regulatory requirements. The statements of risk appetite is reviewed regularly and is transmitted through policies. The Risk Management Division of the Branch is responsible for implementing risk strategies developed by the Head Office, assessing the overall risk profile on a regular basis and organising the comprehensive risk management work across the Branch.

Aligning with the risk management strategies of CCB Group, the Risk Management Division has continuously enhanced the risk culture in the Branch with the publication of risk reports, risk analysis and training material to all the users in the Branch.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk

Credit risk is the risk that the Branch will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Risk Management Department is the leading department responsible for overall management of the Branch's credit risk and it coordinates with other business departments to implement credit risk management policies and procedures.

With respect to credit risk management of corporate and institutional business, the Branch's credit risk management covers process such as pre-lending (investment) due diligence, credit (investment) inspection and post-lending (investment) monitoring for credit granting business. The Branch performs pre-lending (investment) investigations by assessing the borrower's credit ratings based on internal rating criteria, performs a comprehensive evaluation of the risks and rewards of the credit plan and completes an evaluation report. Approvals must be authorized by approvers with the appropriate authorization. The Branch conducts continuous post-lending (investment) monitoring activities, any events and emergencies that may result in significant credit risk are reported timely and measures are implemented to prevent and control risks.

With respect to the personal credit business, the Branch relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income, credit history and repayment ability of the applicant. The customer relationship managers then forward the applications and recommendations to the authorized loan approvers for consent. The Branch pays great attention to post-lending monitoring of personal loans and once a loan become overdue, the Branch starts the recovery process according to the standard procedures.

To mitigate risks, the Branch requests the customers to provide collateral and pledges or guarantees where appropriate. A refined management system and operating procedure for collateral and pledges have been developed and there is guideline to specify the suitability of accepting specific types of collateral and pledges. The values, structures and legal covenants of collateral and pledges are continuously monitored to ensure that they still serve their intended purposes conform to market practices.

14.3 Credit risk (continued)

14.3.1 Impairment assessment

The references below show where the Branch's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

14.3.1.1 Definition of default and cure

The Branch considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Branch 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.

As a part of a qualitative assessment of whether a customer is in default, the Branch also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Branch carefully considers whether the event should lead to default position and therefore assess as Stage 3 for ECL calculations or maintain at Stage 2. Such events include:

- Internal rating of the borrower indicating default or marginal to default
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased or terminated its operation
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Branch
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Branch's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default condition has been existed for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a material reduction in credit risk compared to the last grading.

14.3.1.2 The Branch's internal rating and PD estimation process

The Head Office develops and manages the internal rating models. The Branch runs separate models for its key portfolios in which its customers are rated from 1 to 19 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the probability of defaults (PDs) within the Branch's Basel III framework. The internal credit grades are assigned based on these Based III grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

14.3 Credit risk (continued)

14.3.1 Impairment assessment (continued)

14.3.1.3 Exposure at default

The exposure at default (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 Branch 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 reporting 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 Branch determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of the Branch's models.

14.3.1.4 Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Branch segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is 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.

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. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the branch. The Branch estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, 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.

14.3.1.5 Significant increase in credit risk

The Branch continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Branch assesses whether there has been a significant increase in credit risk since initial recognition.

The Branch 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 Branch may also consider that events trigger financial difficulties are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

14.3 Credit risk (continued)

14.3.1 Impairment assessment (continued)

14.3.1.5 Significant increase in credit risk (continued)

When estimating ECLs on a collective basis for a group of similar assets, the Branch applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

14.3.1.6 Grouping financial assets measured on a collective basis

The Branch calculates ECLs either on a collective or an individual basis. Asset classes where the Branch calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The Corporate lending portfolio
- The large and unique exposures of the Small business lending portfolio
- The treasury, trading and interbank relationships (such as Due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring

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

- The smaller and more generic balances of the Branch's Small business lending
- Stage 1 and 2 Retail mortgages and Consumer lending
- Purchased POCI exposures managed on a collective basis

14.3.2 Analysis of inputs to the ECL model under multiple economic scenarios

Expected losses are calculated as a result of future events, depending on their probability of occurrence. Accordingly, CCB Head Office establishes a set of macroeconomic scenarios that inform the calculation of impairment and allow adjustments to be made in accordance with the expected evolution of the economy and locality. The methodology used to gauge the macroeconomic scenarios and their probability of occurrence is described in the methodological document for the preparation of macroeconomic scenarios.

14.3.3 Analysis of risk concentration

The Branch's concentrations of risk are managed by counterparty, intra-group exposures, loan portfolios, geographical region (see Note 14.3.8) and industry sector. There are maximum exposure limits to certain industry to ensure concentration risk is within our acceptable range.

14.3 Credit risk (continued)

14.3.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.
The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties, securities and insurance policies

The Branch also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

In its normal course of business, the Branch appoints legal representative to recover funds from repossessed properties or other assets in its retail portfolio, generally at judicial auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position and not treated as non–current assets held for sale.

For its derivative portfolio, the Branch also makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance–sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they, nevertheless, reduce the Branch's exposure to credit risk, as shown in the tables on the following pages.

Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.5 Impairment allowance for advances and other accounts

The table below shows the credit quality and the maximum exposure to credit risk based on the Branch's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and impairment allowances:

31 December 2023

	Stage 1	Stage 2	Stage 3	Total
Advances and other accounts				
Pass	29,961,610,913	2,577,940,593	-	32,539,551,506
Special mention	-	613,687,930	-	613,687,930
Substandard	-	-	3,765,437	3,765,437
Doubtful	-	-	1,711,827	1,711,827
Loss	-	-	339,168,629	339,168,629
Less: Expected credit loss	(112,377,919)	(165,022,656)	(335,644,348)	(613,044,923)
	29,849,232,994	3,026,605,867	9,001,545	32,884,840,406

31 December 2022

	Stage 1	Stage 2	Stage 3	Total
Advances and other accounts				
Pass	48,852,713,084	4,818,139,720	-	53,670,852,804
Special mention	-	1,074,998,583	-	1,074,998,583
Substandard	-	-	8,619,652	8,619,652
Doubtful	-	-	40,480,985	40,480,985
Loss	-	-	141,032,616	141,032,616
Less: Expected credit loss	(117,102,734)	(386,659,562)	(152,869,295)	(656,631,591)
	48,735,610,350	5,506,478,741	37,263,958	54,279,353,049

	Stage 1 MOP	Stage 2 MOP	Stage 3 MOP	Total MOP
Gross carrying amount as at 1 January 2023	48,852,713,083	5,893,138,303	190,133,254	54,935,984,640
New assets originated or purchased	17,623,132,713	1,066,889,741	27,019	18,690,049,473
Payments and assets derecognised (excluding write offs)	(36,781,246,809)	(3,342,256,088)	(4,645,887)	(40,128,148,784)
Transfer to Stage 1	308,171,925	(308,171,925)	-	-
Transfer to Stage 2	(39,448,172)	39,448,172	-	-
Transfer to Stage 3	(1,711,827)	(157,419,680)	159,131,507	-
At 31 December 2023	29,961,610,913	3,191,628,523	344,645,893	33,497,885,329

	Stage 1 MOP	Stage 2 MOP	Stage 3 MOP	Total MOP
Gross carrying amount as at 1 January 2022	71,525,033,104	3,423,534,869	144,150,058	75,092,718,031
New assets originated or purchased	34,790,967,877	4,830,219,939	1,221,885	39,622,409,701
Payments and assets derecognised (excluding write offs)	(57,217,829,332)	(2,556,996,698)	(4,317,062)	(59,779,143,092)
Transfer to Stage 1	55,969,039	(55,969,039)	-	-
Transfer to Stage 2	(252,349,232)	252,349,232	-	-
Transfer to Stage 3	(49,078,373)	-	49,078,373	-
At 31 December 2022	48,852,713,083	5,893,138,303	190,133,254	54,935,984,640

14.3 Credit risk (continued)

14.3.5 Impairment allowance for advances and other accounts (continued)

	Stage 1 MOP	Stage 2 MOP	Stage 3 MOP	Total MOP
ECL allowance as at 1 January 2023	117,102,734	386,659,562	152,869,295	656,631,591
New exposure	10,727,765	42,319,033	-	53,046,798
Exposure matured/ lapsed	(50,349,833)	(171,661,286)	(502,779)	(222,513,898)
Transfer to Stage 1	5,471,349	(5,471,349)	-	-
Transfer to Stage 2	(4,155,586)	4,155,586	-	-
Transfer to Stage 3	(469,369)	(155,060,314)	155,529,683	-
Recoveries of amounts previously written-offs	-	-	-	-
Remeasurement (Note a)	34,050,859	64,081,424	27,748,149	125,880,432
At 31 December 2023	112,377,919	165,022,656	335,644,348	613,044,923

	Stage 1 MOP	Stage 2 MOP	Stage 3 MOP	Total MOP
ECL allowance as at 1 January 2022	330,445,185	199,940,000	67,327,735	597,712,920
New exposure	50,241,558	235,986,263	-	286,227,821
Exposure matured/ lapsed	(244,740,594)	(96,875,281)	(1,277,468)	(342,893,343)
Transfer to Stage 1	7,168,354	(7,168,354)	-	-
Transfer to Stage 2	(1,757,203)	1,757,203	-	-
Transfer to Stage 3	(297,675)	-	297,675	-
Recoveries of amounts previously written-offs	-	-	42,140	42,140
Remeasurement (Note a)	(23,956,891)	53,019,731	86,479,213	115,542,053
At 31 December 2022	117,102,734	386,659,562	152,869,295	656,631,591

Note:

(a) Remeasurements comprise the impact of changes in Probability of Default ("PD"), Loss Given Default ("LGD") or Exposure at Default ("EAD"); changes in model assumptions and methodologies; loss provisions change due to stage-transfer; unwinding of discount; and the impact of exchange rate changes, etc.

14.3 Credit risk (continued)

14.3.6 Credit Quality Analysis under Regulatory Asset Classification

(31 December 2023, in MOP)

I. Loan and Advance to Banks

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	-	-	-	-	-
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	-	-	-	-	-

II. Loan and Advance to Non-Banks Customers

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	22,838,058,022	107,131,820	91,826,473	-	-
Special Mention	612,452,337	-	73,183,273	-	-
Substandard	3,781,848	-	-	585,353	49,738,700
Doubtful	1,719,288	-	-	469,369	2,987,000
Loss	339,742,133	-	-	334,589,625	282,014,000
Total	**23,795,753,629**	**107,131,820**	**165,009,746**	**335,644,348**	**334,739,700**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.6 Credit Quality Analysis under Regulatory Asset Classification (continued)

III. Trade Bills

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	9,699,402,587	5,246,099	-	-	-
Special Mention	2,729,113	-	12,910	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**9,702,131,700**	**5,246,099**	**12,910**	**-**	**-**

IV. Debt Securities

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	23,361,912,165	17,108,945	-	-	-
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**23,361,912,165**	**17,108,945**	**-**	**-**	**-**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.6 Credit Quality Analysis under Regulatory Asset Classification (continued)

V. Others

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	32,870,452,506	3,450,714	32,215,837	-	-
Special Mention	18,002,323	-	1,601	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**32,888,454,829**	**3,450,714**	**32,217,438**	**-**	**-**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.6 Credit Quality Analysis under Regulatory Asset Classification (continued)

(31 December 2022, in MOP)

I. Loan and Advance to Banks

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	566,952,100	9,227,273	-	-	-
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**566,952,100**	**9,227,273**	**-**	**-**	**-**

II. Loan and Advance to Non-Banks Customers

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	28,742,838,208	110,658,884	241,268,345	-	-
Special Mention	1,078,908,746	-	153,121,332	-	-
Substandard	8,619,653	-	-	1,759,834	53,858,700
Doubtful	40,480,985	-	-	11,276,466	107,294,000
Loss	139,832,996	-	-	139,832,996	216,994,220
Total	**30,010,680,588**	**110,658,884**	**394,389,677**	**152,869,295**	**378,146,920**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.6 Credit Quality Analysis under Regulatory Asset Classification (continued)

III. Trade Bills

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	24,358,351,952	1,061,107	-	-	-
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**24,358,351,952**	**1,061,107**	**-**	**-**	**-**

IV. Debt Securities

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	19,377,251,648	12,336,492	-	-	-
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**19,377,251,648**	**12,336,492**	**-**	**-**	**-**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.6 Credit Quality Analysis under Regulatory Asset Classification (continued)

V. Others

	Outstanding Balance	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Value of Collateral
Pass	6,771,155,887	955,719	-	-	-
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**6,771,155,887**	**955,719**	**-**	**-**	**-**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.7 Customer loans by industry distribution and maturity

31 December 2023 (all amounts in MOP)	Current Outstanding	Overdue 3-6 months	Overdue 6-12 months	Overdue 1 year or above	Expected Credit Loss (Stage 1)	Expected Credit Loss (Stage 2)	Expected Credit Loss (Stage 3)	Total
- Agriculture and fisheries	96,156,335	-	-	-	36,909	-	-	**96,119,426**
- Mining industries	-	-	-	-	-	-	-	-
- Manufacturing industries	5,766,230,436	-	-	-	2,482,721	13,422	-	**5,763,734,292**
- Electricity, gas and water	168,829,107	-	-	-	307,539	-	-	**168,521,568**
- Construction and public works	1,207,987,281	-	-	-	5,141,981	425,558	-	**1,202,419,742**
- Wholesale and retail trade	1,224,208,638	-	-	-	4,388,476	560,595	-	**1,219,259,567**
- Restaurants, hotels and similar	2,749,799,684	-	-	47,970,808	4,406,779	107,454,272	48,036,648	**2,637,872,794**
- Transport, warehousing and communications	145,598,618	-	-	-	162,901	-	-	**145,435,716**
- Non-monetary financial institutions	1,772,447,779	-	-	-	5,402,866	-	-	**1,767,044,912**
- Gaming	-	-	-	-	-	-	-	-
- Exhibition and conference	-	-	-	-	-	-	-	-
- Education	138,333,755	-	-	-	1,043,115	-	-	**137,290,639**
- Information technology	98,026,406	-	-	-	518,199	-	-	**97,508,206**
- Other industries	9,483,943,233	-	-	155,031,633	17,619,777	23,757,193	155,223,634	**9,442,374,263**
- Personal loans	10,306,257,169	3,765,437	4,362,887	128,936,124	38,393,311	65,284,959	132,384,066	**10,207,259,281**
Total loans and advances	**33,157,818,440**	**3,765,437**	**4,362,887**	**331,938,565**	**79,904,575**	**197,496,000**	**335,644,348**	**32,884,840,406**
Value of collateral	**-**	**49,738,700**	**2,987,000**	**282,014,000**	**N/A**	**N/A**	**N/A**	**334,739,700**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.7 Customer loans by industry distribution and maturity (continued)

31 December 2022 (all amounts in MOP)	Current Outstanding	Overdue 3-6 months	Overdue 6-12 months	Overdue 1 year or above	Expected Credit Loss (Stage 1)	Expected Credit Loss (Stage 2)	Expected Credit Loss (Stage 3)	Total
- Agriculture and fisheries	115,704,197	-	-	-	85,644	-	-	**115,618,553**
- Mining industries	36,454,025	-	-	-	100,944	-	-	**36,353,081**
- Manufacturing industries	21,150,611,082	-	-	-	16,550,027	13,465	-	**21,134,047,590**
- Electricity, gas and water	549,932,887	-	-	-	688,968	-	-	**549,243,919**
- Construction and public works	1,809,977,341	-	-	-	5,301,060	-	-	**1,804,676,281**
- Wholesale and retail trade	1,743,679,570	-	-	-	5,514,220	19,774,209	-	**1,718,391,141**
- Restaurants, hotels and similar	5,238,493,530	-	-	48,672,494	2,593,434	244,559,320	48,669,148	**4,991,344,122**
- Transport, warehousing and communications	1,583,964,215	-	-	-	5,743,199	-	-	**1,578,221,016**
- Non-monetary financial institutions	1,735,867,739	-	-	-	5,355,688	-	-	**1,730,512,051**
- Gaming	-	-	-	-	-	-	-	-
- Exhibition and conference	-	-	-	-	-	-	-	-
- Education	142,146,579	-	-	-	1,077,151	-	-	**141,069,428**
- Information technology	772,753,270	-	-	-	1,441,790	-	-	**771,311,480**
- Other industries	11,443,670,025	-	-	-	35,369,165	45,792,273	-	**11,362,508,587**
- Personal loans	8,429,296,687	3,116,166	43,189,694	88,455,139	37,281,443	76,520,295	104,200,148	**8,346,055,800**
Total loans and advances	**54,752,551,147**	**3,116,166**	**43,189,694**	**137,127,633**	**117,102,733**	**386,659,562**	**152,869,296**	**54,279,353,049**
Value of collateral	**-**	**53,858,700**	**107,294,000**	**216,994,220**	**N/A**	**N/A**	**N/A**	**378,146,920**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.8 Risk Exposure by Geographical Distribution

(31 December 2023)

	Banks	Governments	Others	Total	ECL - Stage 1	ECL - Stage 2	ECL - Stage 3	Non-performing Loans
	MOP	MOP	MOP	MOP	MOP	MOP	MOP	MOP
Cash and balances with banks and AMCM								
-Macau SAR	9,140,048,922	-	-	9,140,048,922	4,060,238	-	-	-
-Hong Kong SAR	180,403,161	-	-	180,403,161	168,793	-	-	-
-Mainland China	1,476,369,116	-	-	1,476,369,116	1,118,189	-	-	-
-Others	416,815,505	-	-	416,815,505	22,062	-	-	-
	11,213,636,704	-	-	11,213,636,704	5,369,282	-	-	-
Placements with bank								
-Macau SAR	2,316,212,264	-	-	2,316,212,264	2,680,774	-	-	-
-Hong Kong SAR	-	-	-	-	-	-	-	-
-Mainland China	36,697,266,375	-	-	36,697,266,375	890,153	-	-	-
-Others	3,686,831,624	-	-	3,686,831,624	440,122	-	-	-
	42,700,310,263	-	-	42,700,310,263	4,011,049	-	-	-
Loans and advances								
-Macau SAR	-	-	10,582,647,894	10,582,647,894	55,619,256	164,650,447	180,612,714	185,035,256
-Hong Kong SAR	-	-	3,735,910,352	3,735,910,352	18,409,434	-	-	-
-Mainland China	2,684,635,698	-	15,119,881,610	17,804,517,308	37,348,278	372,208	155,031,633	155,031,633
-Others	973,772,389	-	401,037,386	1,374,809,775	1,000,950	-	-	-
	3,658,408,087	-	29,839,477,242	33,497,885,329	112,377,919	165,022,656	335,644,348	340,066,889

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	Banks	Governments	Others	Total	ECL - Stage 1	ECL - Stage 2	ECL - Stage 3	Non-performing Loans
	MOP	MOP	MOP	MOP	MOP	MOP	MOP	MOP
Investments in securities								
-Macau SAR	4,015,395,540	-	-	4,015,395,540	2,087,084	-	-	-
-Hong Kong SAR	5,480,932,975	-	-	5,480,932,975	2,960,864	-	-	-
-Mainland China	11,142,835,144	1,263,336,637	202,869,015	12,609,040,796	11,474,859	-	-	-
-Others	1,256,542,854	-	-	1,256,542,854	586,138	-	-	-
	21,895,706,513	1,263,336,637	202,869,015	23,361,912,165	17,108,945	-	-	-
Derivative financial instruments								
-Macau SAR	-	-	-	-	-	-	-	-
-Hong Kong SAR	23,274,707,393	-	-	23,274,707,393	-	-	-	-
-Mainland China	1,776,517,474	-	-	1,776,517,474	-	-	-	-
-Others	8,782,416,635	-	-	8,782,416,635	-	-	-	-
	33,833,641,502	-	-	33,833,641,502	-	-	-	-
Total	**113,301,703,069**	**1,263,336,637**	**30,042,346,257**	**144,607,385,963**	**138,867,195**	**165,022,656**	**335,644,348**	**340,066,889**

The above analysis by geographical location is based on the locations of the borrowers and takes into account the transfer risk factors. Generally, the risk is transferred when the claim on the loan is secured by a party other than the borrower's location.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.3 Credit risk (continued)

14.3.8 Risk Exposure by Geographical Distribution (continued)

(31 December 2022)

	Banks	Governments	Others	Total	ECL - Stage 1	ECL - Stage 2	ECL - Stage 3	Non-performing Loans
	MOP	MOP	MOP	MOP	MOP	MOP	MOP	MOP
Cash and balances with banks and AMCM								
-Macau SAR	1,200,428,623	-	-	1,200,428,623	888,648	-	-	-
-Hong Kong SAR	1,210,714,628	-	-	1,210,714,628	5,098	-	-	-
-Mainland China	3,912,169,790	-	-	3,912,169,790	-	-	-	-
-Others	446,887,127	-	-	446,887,127	61,974	-	-	-
	6,770,200,168	-	-	6,770,200,168	955,720	-	-	-
Placements with bank								
-Macau SAR	-	-	-	-	-	-	-	-
-Hong Kong SAR	-	-	-	-	-	-	-	-
-Mainland China	52,490,925,790	-	-	52,490,925,790	-	-	-	-
-Others	2,010,144,651	-	-	2,010,144,651	-	-	-	
	54,501,070,441	-	-	54,501,070,441	-	-	-	-
Loans and advances								
-Macau SAR	-	-	13,382,660,954	13,382,660,954	48,679,566	355,065,998	152,869,295	48,669,148
-Hong Kong SAR	-	-	4,826,063,990	4,826,063,990	24,593,792	2,599,242	-	-
-Mainland China	4,522,148,510		31,834,166,011	36,356,314,521	47,197,544	36,724,437	-	-
-Others	-	-	370,945,175	370,945,175	476,362	-	-	-
	4,522,148,510	-	50,413,836,130	54,935,984,640	120,947,264	394,389,677	152,869,295	48,669,148

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	Banks	Governments	Others	Total	ECL - Stage 1	ECL - Stage 2	ECL - Stage 3	Non-performing Loans
	MOP	MOP	MOP	MOP	MOP	MOP	MOP	MOP
Investments in securities								
-Macau SAR	3,406,412,644	752,581,371	200,796,171	4,359,790,186	5,161,138	-	-	-
-Hong Kong SAR	2,495,872,400	-	-	2,495,872,400	1,667,905	-	-	-
-Mainland China	9,584,239,002	-	-	9,584,239,002	5,140,871	-	-	-
-Others	2,937,350,060	-	-	2,937,350,060	366,578	-	-	-
	18,423,874,106	752,581,371	200,796,171	19,377,251,648	12,336,492	-	-	-
Derivative financial instruments								
-Macau SAR	-	-	-	-	-	-	-	-
-Hong Kong SAR	35,128,577,763	-	-	35,128,577,763	-	-	-	-
-Mainland China	1,234,831,572	-	-	1,234,831,572	-	-	-	-
-Others	8,910,503,564	-	-	8,910,503,564	-	-	-	-
	45,273,912,899	-	-	45,273,912,899	-	-	-	-
Total	**129,491,206,124**	**752,581,371**	**50,614,632,301**	**180,858,419,796**	**134,239,475**	**394,389,677**	**152,869,295**	**48,669,148**

The above analysis by geographical location is based on the locations of the borrowers and takes into account the transfer risk factors. Generally, the risk is transferred when the claim on the loan is secured by a party other than the borrower's location.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, credit spreads and equity prices.

The market risk metrics are monitored through the implementation of Value at Risk (VaR), Expected Shortfall and Three Worst during the investment holding period. Backtesting is a periodic comparison of the daily VaR using historical simulations with the actual profit/loss. This comparison determines the number of times in which the losses have surpassed the VaR value, assessing on the strength of the assumptions, quality and precision of the VaR model. The Branch has also implemented triggers of stop-loss mechanism in the Investment portfolio.

The Branch's risk management strategy for its Branch's book is different for each of the following categories of market risk and is set out in the subsequent subsections of these financial statements, as follows:

- Interest rate risk in note 14.4.1
- Currency risk in note 14.4.2

Market risk limits are set and continuously reviewed by the Branch's Risk Management Division. As a part of their established market risk management process, it also monitors early signs of possible changes in market conditions such as: anticipated and actual changes to interest rates; socio-economic factors driving mortgage prepayment behaviours; and economic and geopolitical factors driving currency and equity price movements. Market risk limits are ultimately approved by the Board of our Head Office.

At an operational level, market risk is primarily managed by the Branch's treasury department, which is responsible for ensuring that the Branch's exposures are in compliance with market risk limits approved by the Board and to take adequate actions when necessary.

The Branch's risk management strategies in relation to market risks are explained under the corresponding subheadings on the following pages.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.4 Market risk (continued)

14.4.1 Interest rate risk

The Branch’s primary business model is to collect deposits, and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on the Branch’s margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Branch’s liabilities and the interest earned on its assets.

The Branch’s asset-liability profile of its Branch’s book is such that:

- Interest on deposits is primarily either floating or their maturities are so short term that their behaviour is similar to floating rate instruments
- Interest rates payable on issued debt are primarily fixed
- The Branch’s loan portfolio is a mixture of fixed and floating rates instruments

As a part of the Branch’s risk management strategy, the Board has established limits on the non–trading interest rate gaps for the interest rate sensitivities. These limits are consistent with the Branch’s enterprise risk appetite.

The Branch’s policy is to monitor positions on a daily basis. The Branch’s book interest rate risk is monitored using various interest rate shock scenarios, including sensitivity of profit or loss and equity, both of which incorporate the effect of existing hedging activities, but do not include any management actions that could arise as the markets change. The sensitivity of profit or loss is the effect of the assumed changes in interest rates on the profit or loss over a 12-month horizon and measures sensitivities to short-term interest rate changes.

Interest rate sensitivity analysis

The Branch's equity sensitivity to changes in interest rates is a measure of the sensitivities of its asset and liability mismatches to longer-term interest rate changes. The sensitivities include assumptions for product maturities and renewals along with certain customer behaviours (including prepayments and redemptions). The Branch calculates these measures as the change in the present value of its asset and liability portfolios, including off-balance sheet instruments, resulting from an immediate and sustained interest rate shocks.

The following table demonstrates the sensitivity to a reasonably possible parallel changes in interest rates (all other variables being constant) of the Branch’s profit or loss:

	2023 Increase /(decrease) in profit before tax MOP	2022 Increase /(decrease) in profit before tax MOP
Increase by 200bps	19,899,102	14,572,749
Decrease by 200bps	(19,899,102)	(14,572,749)

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.4 Market risk (continued)

The Branch assumes that the loan prepayment rate is zero. It is because the Branch charges an additional fee for early repayment, which can partly offset the impact on interest income. The Branch classifies non-maturity deposits into 'next day' repricing bucket.

14.4.2 Currency risk

The Branch's assets and liabilities are denominated in major currencies, particularly HK Dollar, US Dollar and Renminbi. To ensure the currency risk exposure of the Branch is kept to an acceptable level, risk limits (e.g. Position and VaR limit) are used to serve as a monitoring tool. Moreover, the Branch seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts (e.g. FX swaps) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

The following is a summary of the Branch's long or short position of foreign currencies other than the Branch's functional currency that occupied over 10% of the total FX position.

2023

Currency	Spot Assets	Spot Liabilities	Forward Purchases	Forward Sales	Net Position
	MOP	MOP	MOP	MOP	MOP
HKD	11,677,834,232	12,523,049,545	1,932,522,429	1,096,041,442	(8,734,326)
USD	35,372,578,008	26,218,412,142	12,908,885,231	19,403,872,298	2,659,178,799
CNY	56,215,563,326	64,813,376,471	18,671,780,460	10,085,150,744	(11,183,429)
	103,265,975,566	**103,554,838,158**	**33,513,188,120**	**30,585,064,484**	**2,639,261,044**

2022

Currency	Spot Assets	Spot Liabilities	Forward Purchases	Forward Sales	Net Position
	MOP	MOP	MOP	MOP	MOP
HKD	12,726,653,832	6,552,171,447	320,083,336	6,551,237,351	(56,671,630)
USD	56,791,979,180	40,631,930,922	14,677,685,651	28,636,331,284	2,201,402,625
CNY	58,572,855,819	81,495,915,523	29,891,937,577	6,984,350,072	(15,472,199)
	128,091,488,831	**128,680,017,892**	**44,889,706,564**	**42,171,918,707**	**2,129,258,796**

14.5 Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people, systems or external events. To mitigate the relevant risks, the Branch maintains a comprehensive policies and control framework designed to provide a sound and well-controlled operational environment, including a sound risk management system, adequate policies & procedures and monitoring system; record keeping requirement; compliance review; prudent credit approval policy and reconciliation standard; internal control, audit review, staff appraisal and regular review undertaken by external audits; established positive risk culture emphasizing high standard integrity, business ethics and risk awareness of staff. Each Line of Business is responsible for managing the operational risks of its business and operation. Moreover, the Bank has developed the Business Continuity Plans and Alternate Operations Sites to ensure business continuity during crisis situations.

The Branch's risk management functions department are responsible for designing and implementing operational risk framework, tools, risk indicators and methodologies in their responsible areas. General Manager delegates authority to Risk Management and Internal Control Committee to monitor the operational risk of the Bank. Internal control and audit carries out regular assessment on the situations and the Head Office Audit Department will carry out audit review regularly and on ad-hoc basis. The result of the review will be reported to the Branch's senior management, relevant department and Senior Management of the Head Office. The review may cover the activities of the Branch as well as an overview of the support units.

In order to enhance the staff awareness to attain a consistent and accurate operation standard compliance circulars, policies and procedures are issued and regular training is provided to staff. All Head of Divisions should monitor and manage the operational risk specific to their units. The Branch's Compliance Officer is charged with the responsibility to management compliance issues of the Branch.

14.6 Liquidity risk and funding management

Liquidity risk is defined as the risk that the Branch does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Branch might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Branch on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Branch has developed internal control processes and contingency plans for managing liquidity risk. The ALCO is responsible for managing the Branch's liquidity risk through comprehensive policies, governance and review procedures, stress testing, monitoring of limit sets to ensure these are in line with the overall liquidity risk appetite and strategy of the Branch. The treasury department of the Branch is responsible for working with other departments within the Branch to ensure the liquidity risk strategy is executed. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required.

The Branch maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Branch also has lines of credit that it can access to meet liquidity needs. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

The Branch adopts liquidity indicator analysis, remaining maturity analysis and undiscounted cash flow analysis to measure the liquidity risk.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.6 Liquidity risk and funding management (continued)

14.6.1 Maturity analysis

The following tables provide an analysis of the financial assets and financial liabilities of the branch based on the remaining periods to repayment as at the end of the reporting period:

31 December 2023	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 3 years**	**Over 3 years**	**Unspecified**	**Total**
	MOP	**MOP**	**MOP**	**MOP**	**MOP**	**MOP**	**MOP**
Financial assets							
Cash and balances with banks	2,139,037,890	9,069,229,532	-	-	-	-	11,208,267,422
Deposits with monetary authorities	485,158,290	-	-	-	-	-	485,158,290
Placements with banks	-	16,143,506,005	19,643,768,529	6,909,024,680	-	-	42,696,299,214
Advances and other accounts	466,228,109	9,246,028,570	10,153,967,602	4,683,639,583	8,334,976,542	-	32,884,840,406
Investments in securities-others	-	4,162,557,428	7,314,042,987	7,246,176,307	1,093,830,746	1,403,016	19,818,010,484
Debt securities issued	-	-	3,504,270,772	34,032,823	-	-	3,538,303,595
Securities issued by Macao SAR Government and/or AMCM	-	-	-	-	-	-	-
Derivatives financial instruments	22,192,752	74,196,692	188,121,721	-	-	-	284,511,165
Total	**3,112,617,041**	**38,695,518,227**	**40,804,171,611**	**18,872,873,393**	**9,428,807,288**	**1,403,016**	**110,915,390,576**
Financial liabilities							
Deposits and balances with banks and other financial institutions	12,316,745	27,378,905,850	27,871,271,281	1,374,135,454	-	-	56,636,629,330
Deposit from public sector entities	-	1,029,681,000	2,261,585,000	-	-	-	3,291,266,000
Deposit from Holding and associated companies	39,225,452						39,225,452
Deposits from customers-others	2,018,313,272	3, 232,901,788	5,598,614,390	49,438,714	1,779,475	-	10,901,048,639
Derivatives financial instruments	12,646,110	76,277,964	182,537,967	-	-	-	271,462,041
CD issued	-	13,094,881,400	1,889,9687,572	-	-	-	31,994,568,972
Other debt securities issued	-	-	4,032,254,833	-	-	-	4,032,254,833
Total	**2,082,501,579**	**44,812,649,002**	**58,845,951,043**	**1,423,574,168**	**1,779,475**	**-**	**107,166,455,267**

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

14.6 Liquidity risk and funding management (continued)

14.6.2 Quantitative disclosure

Liquidity Risk refer to the Branch's inability to fulfill the business requirement on funding and commitment. Liquidity management aims to ensure that there is sufficient funding to meet all the financial commitments, and grasp potential business development opportunities. It includes the ability to meet the payment obligation, loan commitment, and repayment obligation, fulfillment of liquidity risk limit and new loan drawdown as well as investment requirements.

The Branch has established liquidity management policy that endeavors to maintain sufficient funding to fulfill liquidity requirements. Liquidity risk management includes maintaining high quality liquid assets and diversified funding sources, setting up liquidity risk limit monitoring mechanism, as well as performing stress tests on a regular basis to analyze the impact of various stress scenarios on the Branch's liquidity positions.

The General Manager of the Branch is responsible for the setup of liquidity risk management framework. ALCO is responsible for the monitoring of liquidity risk management, which is authorized by the General Manager.

Disclosure related to the Bank's liquidity is as following:

The average liquidity data of the Branch as at 31 December2023:

Minimum weekly amount of cash in hand is required to hold	752,409,697
Average weekly amount of cash in hand	905,034,792
Specified liquid assets at the end of each month	21,821,391,298
Specified liquid asset to total basic liabilities at the end of each month	46.6%
One-month liquidity ratio in the last week of each month	84.2%
Three-month liquidity ratio in the last week of each month	71.8%

15.Other Information

The Branch is one of the branches of China Construction Bank Corporation Limited. Therefore, it is not required to prepare consolidated financial statements. The details of consolidated capital adequacy ratio, consolidated capital and reserves, consolidated balance sheet and consolidated income statement of China Construction Bank Corporation Limited are published on the website:http://www.ccb.com/eng/investor/performancereports/annual_reports/index.shtml.