The Bank of East Asia, Limited,
Macau Branch

Disclosure of financial information
for the year ended 31 December 2022

Independent Auditor's Report on the Summarised Financial Information

To the management of The Bank of East Asia, Limited, Macau Branch
(Branch of a commercial bank with limited liability incorporated in the Hong Kong Special Administrative Region)

The summarised financial information of The Bank of East Asia, Limited, Macau Branch ("the Branch") set out on pages 4 to 8, which comprises the summarised statement of financial position as at 31 December 2022, the summarised statement of profit or loss and other comprehensive income and the summarised cash flow statement for the year then ended. The summarised financial information are derived from the audited financial statements of the Branch for the year ended 31 December 2022. We expressed an unmodified audit opinion on those financial statements in our report dated 2 May 2023. Those financial statements, and the summarised financial information, do not reflect the effects of events that occurred subsequent to the date of our report (2 May 2023) on those financial statements.

The summarised financial information does not contain all the disclosures required by Financial Reporting Standards issued by the Macau Special Administrative Region. Reading the summarised financial information, therefore, is not a substitute for reading the audited financial statements of the Branch.

Directors' Responsibility for the Summarised Financial Information
The directors are responsible for the preparation of the summarised financial information in accordance with Decree Law no. 32/93/M.

Auditor's Responsibility
Our responsibility is to express an opinion on the summarised financial information based on our procedures, which were conducted in accordance with International Standard on Auditing ("ISA") 810, "Engagements to Report on Summary Financial Statements" included in Macau Auditing Standards.

Independent Auditor's Report on the Summarised Financial Information (Continued)

Opinion
In our opinion, the summarised financial information is in all material aspects consistent with the annual financial statements and the auditor's report thereon for the year ended 31 December 2022 from which it is derived.

Ieong Lai Kun, CPA
KPMG
Certified Public Accountants

Unit B&C, 12th Floor
Finance and IT Center of Macau
320 Avenida Doutor Mario Soares
Macau

Report of the Branch management

Principal place of business

The Bank of East Asia, Limited, Macau Branch (“the Branch” or “BEA Macau”) is a branch of The Bank of East Asia, Limited (“Head Office”, “BEA” or “the Bank”). It is domiciled in Macau and has its registered office and principal place of business at Alameda Dr Carlos D’ Assumpção Fu Tat Fa Yuen, R/C AP to AW, Macau.

Principal activities

The principal activities of the Branch are the provision of banking and related financial services.

2022 business overview

In 2022, Macau continued to face economic disruption caused by the COVID-19 pandemic and real GDP declined by 26.8%, a significant deterioration on the positive growth achieved in 2021. Market sentiment was weak and the unemployment rate was high, delaying the expected economic recovery. The business environment was also challenging due to the uncertain global economic outlook, interest rate hikes, and rising global inflation. It was only at the end of year when the pandemic control measures were relaxed and border restrictions were lifted that Macau’s economy started to recover, albeit gradually, with rebounds in both the tourism and gaming sectors.

Turning to the performance of The Bank of East Asia, Limited, Macau Branch (“BEA Macau”). After the completion of the strategic repositioning exercise and network rationalisation initiative in 2021, BEA Macau reported remarkable improvements in both its pre-provision operating profit and cost-to-income ratio in 2022.

Looking ahead, BEA Macau will continue to focus on its wholesale banking business and maintain tight cost control. The branch will leverage the post-pandemic rejuvenation of the economy, and new developments arising from the Greater Bay Area and other nearby regions, to capture business opportunities and achieve sustainable growth.

Statement of financial position (Balance sheet) as at 31st December 2022

(Expressed in Macau Patacas)

	2022	*2021*
	MOP	MOP
Assets		
Cash and balances with banks	230,071,092	543,189,506
Placements with banks	33,578,877	40,000,611
Monetary bills at amortised cost	299,693,676	-
Loans and advances to customers and other accounts	7,115,624,910	7,515,785,784
Less: Provision for loans and advances	(65,903,605)	(3,327,920)
Other assets	10,768,707	684,950
Fixed assets	122,200,705	129,333,300
	7,746,034,362	8,225,666,231
Liabilities and reserves		
Deposits and balances of banks	4,922,138,950	5,180,717,920
Deposits from customers	2,287,295,127	2,536,972,590
Other accounts and provisions	41,779,690	23,632,775
Current taxation	2,793,027	8,791,884
Deferred tax liabilities	8,592,198	8,513,884
	7,262,598,992	7,758,629,053
Establishment fund	221,251,000	221,251,000
General regulatory reserve	72,187,370	72,187,370
Specific regulatory reserve	-	-
Retained profits	189,997,000	173,598,808
	7,746,034,362	8,225,666,231

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

(Expressed in Macau Patacas)

	2022 MOP	*2021* MOP
Interest income	231,765,913	165,974,813
Interest expense	(97,695,192)	(33,783,828)
Net interest income	134,070,721	132,190,985
Fee and commission income	15,838,279	8,932,839
Other operating income	965,922	1,431,870
Net trading profit	-	9,328
Operating income	150,874,922	142,565,022
Operating expenses	(68,813,740)	(80,150,363)
Operating profit before impairment losses	82,061,182	62,414,659
(Charge)/ release of impairment losses	(62,527,417)	3,904,434
Operating profit after impairment losses	19,533,765	66,319,093
Loss on disposals of fixed assets	(1,666,244)	(2,054,139)
Profit before taxation	17,867,521	64,264,954
Income tax	(1,469,329)	(7,625,346)
Profit and total comprehensive income for the year	16,398,192	56,639,608

Approved by management on

)
)
) Management
)
)

Cash flow statement
for the year ended 31st December 2022
(Expressed in Macau Patacas)

	Year ended 31st December 2022 MOP	*Year ended 31st December 2021* MOP
Operating activities		
Profit before taxation	17,867,521	64,264,954
Adjustments for:		
Depreciation	9,121,464	9,235,221
Loss on disposal of fixed assets	1,666,244	2,054,139
Charge/ (release) of impairment losses	62,527,417	(3,904,434)
Operating profit before changes in working capital	91,182,646	71,649,880
Decrease/(increase) in operating assets:		
- Placements with banks and other financial institutions with original maturity over three months	3,732,248	1,703,580
- Monetary bills at amortised cost with original maturity over three months	-	69,913,258
- Trading assets	-	991
- Loans and advances to customers	398,420,908	(5,025,788)
- Accrued interest and other accounts	1,739,966	7,175,623
- Other assets	(10,083,757)	-
Increase/(decrease) in operating liabilities:		
- Deposits and balances of banks	(258,578,970)	599,384,914
- Deposits from customers	(249,677,463)	(822,124,420)
- Trading liabilities	-	(991)
- Other accounts and provisions	18,092,105	(4,634,746)
Net cash used in operations	(5,172,317)	(81,957,699)
Complementary tax paid	(7,389,872)	(1,709,668)
Net cash used in operating activities	(12,562,189)	(83,667,367)

Cash flow statement
for the year ended 31st December 2022 (continued)
(Expressed in Macau Patacas)

	Year ended 31st December 2022 MOP	*Year ended 31st December 2021* MOP
Investing activity		
Proceeds from sales of fixed assets	12,800	-
Purchase of fixed assets	(3,667,913)	(9,764,428)
Net cash used in investing activity	(3,655,113)	(9,764,428)
Net decrease in cash and cash equivalents	(16,217,302)	(93,431,795)
Cash and cash equivalents at 1st January	579,572,550	673,004,345
Cash and cash equivalents at 31st December	563,355,248	579,572,550
Cash flow from operating activities include:		
Interest received	225,756,782	187,030,884
Interest paid	85,676,764	40,679,498
Components of cash and cash equivalents in the cash flow statement		
Cash and balances with banks and other financial institutions	230,081,472	543,298,950
Placements with banks and other financial institutions (original maturity within three months)	33,580,100	36,273,600
Monetary bills at amortised cost (original maturity within three months)	299,693,676	-
	563,355,248	579,572,550

Cash flow statement
for the year ended 31 December 2022 (continued)
(Expressed in Macau Patacas)

	2022 MOP	*2021* MOP
Reconciliation with the statement of financial position		
Cash and balances with banks and other financial institutions	230,071,092	543,189,506
Placements with banks and other financial institutions	33,578,878	40,000,611
Monetary bills at amortised cost	299,693,676	-
Amounts shown in the statement of financial position	563,343,646	583,190,117
Amounts with an original maturity of over three months	-	(3,732,248)
Impairment allowances	11,602	114,681
Cash and cash equivalents in the cash flow statement	563,355,248	579,572,550

Off-balance-sheet exposures
for the year ended 31st December 2022

(Expressed in Macau Patacas)

(a) Contingent liabilities and commitments

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

	As at 31st December 2022 MOP
Direct credit substitutes	37,459,656
Trade-related contingencies	12,328,715
Undrawn credit facilities	688,896,570
	738,684,941

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit and guarantees. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivatives:

	As at 31st December 2022 MOP
Exchange rate contracts	-
Equity contracts	-

Derivatives arise from forward and swap transactions undertaken in the foreign exchange and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period; they do not represent amounts at risk.

Off-balance-sheet exposures
for the year ended 31st December 2022 (continued)

The fair values and credit risk weighted amounts of the aforesaid derivative exposures are as follows:

	As at 31st December 2022	
	Assets	*Liabilities*
	MOP	MOP
Fair value		
- Exchange rate contracts	-	-
- Equity contracts	-	-

	As at 31st December 2022
	MOP
Credit risk weighted amounts	
- Exchange rate contracts	-

Credit risk weighted amount refers to the amount as computed in accordance with AMCM Guideline Notice 011/2015-AMCM on capital adequacy and depends on the status of the counterparty and the maturity characteristics.

The Branch did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.

Accounting policies

(a) Statement of compliance

This disclosure of financial information has been prepared in accordance with the requirements as set out in the Guidelines on Disclosure of Financial Information issued by the AMCM.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated or mandatorily measured at fair value through profit or loss and measured at fair value through other comprehensive income (note (f)).

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

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

(c) Changes in accounting policies

The Secretary of Economy and Finance of the Macao Special Administrative Region issued Dispatch No. 44/2020, which promulgated a new set of financial reporting standards (“FRSs”) that are first effective for the current accounting period. The FRSs replaced the suite of FRSs previously promulgated in Administrative Regulation No. 25/2005. The FRSs are consistent with the suite of International Financial Reporting Standards, as issued by the International Accounting Standards Board and incorporated in its 2015 edition of the Bound Volume of International Financial Reporting Standards, which includes the individual International Financial Reporting Standards, International Accounting Standards and Interpretations.

The adoption of FRSs does not have a material impact on these financial statements, taking into account the following:

- In accordance with the transition requirements, the Branch has applied (i) IFRS 9, *Financial instruments*, retrospectively only to items that existed at 1 January 2022, and (ii) IFRS 15, *Revenue from contracts with customers*, retrospectively only to contracts that were not completed before 1 January 2022 using the cumulative effect transition method. The comparative information has not been restated, and the adoption of IFRS 9 and IFRS 15 does not have a material impact on the opening balance of equity at 1 January 2022.

- Other than changes in accounting policies in relation to IFRS 9 and IFRS 15 as summarised below, none of the developments have a material impact on the Branch's accounting policies.

IFRS 9, Financial instruments

IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. Classification of a financial asset under IFRS 9 is generally based on the business model in which the financial asset is managed and the contractual cash flows of the financial asset. For an equity instrument which is not held for trading at initial recognition, an irrevocable election can be made to present subsequent changes in fair value of the equity instrument in OCI. Cumulative gains and losses recognised in OCI are not recycled to profit or loss upon derecognition of the equity instrument, in contrast to debt instrument measured at FVOCI where recycling of cumulative gains and losses to profit or loss upon derecognition is permitted. For derivatives embedded in contracts where the host is a financial asset in the scope of the standard, they are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. The standard removes the previous categories of held-to-maturity, loans and receivables and available-for-sale.

The classification of financial liabilities remains the same. Fair value changes of designated fair value options are generally presented under IFRS 9 as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Branch classifies and measures financial assets and financial liabilities under IFRS 9, see respective accounting policies (f). The monetary bills held-to-maturity was reclassified as monetary bills measured at amortised cost at 1 January 2022. The Branch's management considers that there was no significant impact to the financial statements at the time of adoption of these new accounting policies.

Accounting policies (continued)

IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue from and certain costs related to contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Branch performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles. Except for the change in presentation of contract assets and liabilities, the adoption of HKFRS 15 does not have any material impact on the financial position and there is no transitional impact to retained earnings. Under HKFRS 15, a receivable is recognised only if the Branch has an unconditional right to consideration. If the Branch recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. The contract asset is transferred to receivables when the right to consideration becomes unconditional. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Branch recognises the related revenue.

The Branch’s management considers that there was no significant impact to the financial statements at the time of adoption of these new accounting policies.

Accounting policies (continued)

(d) *Translation of foreign currencies*

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

(e) *Revenue recognition*

Income and Revenue – Policy applicable from 1st January 2022

Income is classified by the Branch as revenue when it arises from the provision of services in the ordinary course of the Branch's business. Revenue is recognised when service is provided to the customer at the amount of promised consideration to which the Branch is expected to be entitled, excluding those amounts collected on behalf of third parties.

Interest income

Interest income for all interest-bearing financial instruments are recognised in the income statement on an accruals basis using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the Branch estimates future cash flows considering all contractual terms of the financial instrument but not expected credit losses. For financial assets that were purchased or originated credit-impaired on initial recognition, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses (i.e. no expected credit loss provision is required at initial recognition).

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. The transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

Amortised cost and gross carrying amount

The amortised cost of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Accounting policies (continued)

Calculation of interest income

In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were purchased or originated credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, please refer to Note (h).

Fee and commission income

Fee and commission income that are integral to the effective interest rate on a financial asset are included in the effective interest rate calculation. Other fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received/ paid by the Branch which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If it is uncertain that a loan commitment will result in draw-down of a loan, then the related loan commitment fee is recognised as revenue on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed when the services are received.

Presentation of contract assets and liabilities

When revenue is recognised by transferring goods or services to a customer before the consideration is received or before payment is due, the Branch presents the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is recognised in statement of financial position when there is a right to consideration that is conditional on factors other than the passage of time. The contract asset is transferred to receivables when the right to consideration becomes unconditional. Impairment of a contract asset is measured on the same basis as a financial asset.

As a practical expedient, the Branch does not adjust the promised amount of consideration for the effects of a significant financing component if the Branch expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The Branch may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Branch otherwise would have recognised is one year or less.

Accounting policies (continued)

Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Branch recognises the related revenue.

Net trading profit

Net trading profit comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with foreign exchange differences and dividend income attributable to these financial instruments. Coupon interest from these financial assets and financial liabilities measured at FVTPL is accrued and presented as interest income or interest expense.

Other revenue

Other revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Branch and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss.

Income and Revenue – Policy applicable before 1st January 2022

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Branch and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit and loss account as follows.

Interest income for all interest-bearing financial instruments is recognised in the profit and loss account on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase of the present value of impaired loans due to the passage of time is reported as interest income.

Fee and commission income is recognised in the profit and loss account when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Accounting policies (continued)

Origination or commitment fees received by the Branch which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Branch making a loan, the fee is recognised as revenue on a straight-line basis over the commitment period.

(f) Financial instruments

(i) Initial recognition

The Branch initially recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of investment securities classified as measured at FVTPL, fair value through other comprehensive income (FVOCI) (from 1st January, 2022), available-for-sale or held-to-maturity (before 1st January, 2022) financial assets and financial liabilities at FVTPL or debts issued are recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

From the date of initial recognition, any gains and losses arising from changes in fair value of the financial assets or financial liabilities measured at fair value are recorded.

Accrued contractual interests from financial assets and liabilities are presented as accrued interest receivables and payables separately in the financial statements.

(ii) Classification

Financial assets and liabilities – Policy applicable from 1st January, 2022

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- 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.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

Accounting policies (continued)

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- 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.

On initial recognition of an equity investment that is not held for trading, the Branch may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Branch may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Branch makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Branch's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Accounting policies (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Branch considers:

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Branch changes its business model for managing financial assets. When (and only when) the Branch changes its business model for managing financial assets, it reclassifies all affected financial assets in accordance with the new business model. The reclassification should be applied prospectively from the 'reclassification date', which is defined as, 'the first day of the first reporting period following the change in business model that results in reclassifying financial assets'. Accordingly, any previously recognised gains, losses or interest will not be restated.

If a financial asset is reclassified out of the amortised cost measurement category and into the FVTPL or FVOCI measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss (if reclassification as FVTPL measurement category) or is recognised in other comprehensive income (if reclassification as FVOCI measurement category).

If a financial asset is reclassified out of the FVOCI measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost.

Accounting policies (continued)

If a financial asset is reclassified out of the FVOCI measurement category and into the FVTPL measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

If a financial asset is reclassified out of the FVTPL measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If an entity reclassifies a financial asset out of the FVTPL measurement category and into the FVOCI measurement category, the financial asset continues to be measured at fair value and subsequent changes in fair value will be recognised in other comprehensive income.

Financial liabilities

The Branch classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

The Branch has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets and liabilities – Policy applicable before 1st January, 2022

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedging accounting are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

Accounting policies (continued)

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract, and the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the profit and loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise placements with banks and other financial institutions, trade bills and loans and advances to customers.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Branch has the positive intention and ability to hold to maturity, other than (a) those that the Branch, upon initial recognition, designates as at fair value through profit or loss or as available for sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less impairment losses, if any.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the profit and loss account.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the profit and loss account.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

(iv) Derecognition

The Branch derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the profit or loss.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Branch uses the weighted average method to determine realised gains and losses to be recognised in the profit and loss account on derecognition.

(v) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Branch evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (Note (e)(iv)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Branch recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the income statement. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The Branch derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the income statement.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vii) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the profit and loss account.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

Accounting policies (continued)

(g) *Fixed assets and depreciation*

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (note (h)).

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Branch. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives from 4 to 50 years.

(h) *Impairment of assets*

(i) Financial instruments

The Branch recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- Cash and balances with banks
- Placements with banks
- Monetary bills at amortised cost
- Loans and advances to customers
- Financial guarantee contracts issued
- Loan commitments issued

The Branch measures loss allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

stage	*Description*	*Impairment Loss Allowance Measurement*
1	Performing	12-month ECL
2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
3	Non-performing	Lifetime ECL

Accounting policies (continued)

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Branch adopts the criteria of stage allocation as follows:

<table>
<tr><td colspan="2">5-Grade Asset classification</td><td>Stage Allocation</td></tr>
<tr><td>Pass</td><td>General(i.e. do not meet the Branch's criteria of "Significant Increase of Credit Risk")</td><td>1</td></tr>
<tr><td></td><td>Meet the Branch's criteria of "Significant Increase of Credit Risk"</td><td>2</td></tr>
<tr><td colspan="2">Special Mention</td><td>2</td></tr>
<tr><td colspan="2">Substandard</td><td rowspan="3">3</td></tr>
<tr><td colspan="2">Doubtful</td></tr>
<tr><td colspan="2">Loss</td></tr>
</table>

The criteria of "significant increase of credit risk" has taken into consideration of two key factors:

1. The exposure has a significant deterioration of internal or external rating as compared with the rating at the time when the exposure was originated; and

2. The rating of the exposure falls out of the "Low-Credit Risk Threshold" that is equivalent to the globally understood definition of "investment grade"

Measurement of ECL

ECL are a probability-weighted estimate of credit losses under different economic scenarios. They are measured as:

Exposure at Default x Probability of Default x Loss Given Default

Credit-impaired financial assets

At each reporting date, the Branch assesses whether financial assets carried at amortised cost and available-for-sale financial assets are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Accounting policies (continued)

Evidence that a financial asset is credit-impaired includes but not limited to the following observable data:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the restructuring of a loan or advance by the Branch on terms that the Branch would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- loan commitments and financial guarantee contracts: generally, as a provision on the liabilities side.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Branch determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Branch's procedures for recovery of amounts due.

Accounting policies (continued)

(ii) Fixed assets and other assets

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that fixed assets or other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the

(i) Operating leases

When the Branch has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term.

Accounting policies (continued)

(j) Repossession of assets

In the recovery of impaired loans and advances, the Branch may take repossession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Branch's accounting policy set out in note (g), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the collateral assets, usually resulting in a partial write-off of the loans and advances against impairment allowances. Repossessed assets are reported under other assets if it is highly probable that their carrying amount will be recovered through a sale transaction rather than through continuing use and the assets are available for sale in its present condition. Related loans and advances are then written off.

Repossessed assets are recognised at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the profit and loss account.

(k) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in reserve, in which case the relevant amount of tax are recognised in reserve.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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

(l) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Branch issues a financial guarantee to customers, the fair value of the guarantee fees received is initially recognised as deferred income within other accounts and provisions.

The deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (h)(i) if and when (i) it becomes probable that the holder of the guarantee will call upon the Branch under the guarantee, and (ii) the amount of that claim on the Branch is expected to exceed the amount currently carried in other accounts and provisions in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Branch has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Employee benefits

Employee entitlements to salaries, annual bonuses, contributions to defined contribution retirement plans and the cost to the Branch of non-monetary benefits are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

Contributions to the Mandatory Provident Fund of The Bank of East Asia, Limited, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance in respect of Hong Kong staff members, are charged to the profit and loss account when incurred.

(n) Related parties

(a) A person, or a close member of that person's family, is related to the Branch if 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 the Branch's Head Office.

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

(i) The entity and the Branch are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Branch or an entity related to the Branch.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Branch or to the Branch's Head Office.

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

Accounting policies (continued)

(o) AMCM Monetary bills

AMCM Monetary bills are stated at their face value less any unamortised discount in the statement of financial position. Discounts are amortised to the profit and loss account on a straight-line basis.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Significant related party transactions

(Expressed in Macau Patacas)

(a) Amounts due from/(to) Head Office and other related parties

During the year, the Branch entered into transactions with its Head Office and certain other branches and subsidiaries of The Bank of East Asia, Limited in the ordinary course of its banking business. In the opinion of management, the transactions were conducted on an arm's length basis. Included in the following captions in the statement of financial position are balances with Head Office and other branches and subsidiaries:

	Head Office	*Other branches*	*Subsidiaries*
Cash and balances with banks	33,679,114	8,098,813	183,685
Placements with banks	5,360,996	-	-
Other accounts	14,451	-	135
Less: expected credit loss	(5,958)	(314)	-
	39,048,603	8,098,499	183,820
Establishment fund	221,251,000	-	-
Deposits and balances of banks	4,191,562,720	-	9,576,230
Other accounts and provisions	14,240,068	-	-
	4,427,053,788	-	9,576,230

The establishment fund of the Branch is interest-free and with no fixed repayment terms.

(b) Related party transactions

Operating profits for the year are stated after taking into account significant transactions with Head Office and other branches and subsidiaries as follows:

	Year ended 31st December 2022 MOP
Interest income	956,934
Interest expense	(64,455,534)
	(63,498,600)

Credit risk management

(Expressed in Macau Patacas)

Credit risk arises from the possibility that a customer or counterparty in a transaction may default.

The Branch has established policies and procedures to identify, measure, monitor and control credit risk. In this connection, guidelines for management of credit risk have been laid down in the Credit Manual. These guidelines stipulate delegated lending authorities, credit extension criteria, credit monitoring process, 20-grade loan classification system, credit recovery and provisioning policy. They are reviewed and enhanced on an on-going basis to cater for the market change, statutory requirement and best practice risk management processes.

The Branch has laid down policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. The Branch has different internal rating systems that are applied to each counterparty. The Branch monitors its concentration risk by adopting appropriate risk control measures, such as setting limits on exposures to different industries and loan portfolios.

The Branch also has a review process to ensure that the level of review and approval is proper and will depend on the size of the facility and rating of the credit. The Branch undertakes on-going credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The overall portfolio risk as well as individual impaired loans and potential impaired loans are monitored on a regular basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance and adjustment of mark to market value if applicable.

The Branch's credit risk is primarily attributable to loans and advances to customers.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year-end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Loans and advances are classified as impaired when the principal or interest is overdue for more than 90 days or if objective evidence of impairment exists.

In accordance with Aviso n.o012/2021-AMCM, credit institutions are required to maintain a minimum level of specific provision for an impaired loan at a percentage depending on the asset classification of the loan, and a general provision at a minimum of 1% of the total balance of performing loans and certain credit-related off-balance sheet exposures. Credit institutions also required to disclosure general and specific reserve after net of expected credit loss of total balance of performing and impaired loans respectively.

(a) *Details of key areas in measurement of ECLs*

The Branch adopts a forward-looking “expected credit loss” model for measuring and recognising impairment loss.

The impairment requirements are complex and require management judgments, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- Assessing whether the credit risk of an asset has increased significantly since initial recognition; and

- Incorporating forward-looking information into the measurement of ECLs.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);

- Loss given default (LGD); and

- Exposure at default (EAD);

The Branch’s head office has established a framework to determine whether the credit risk on a particular financial asset has increased significantly since initial recognition. The framework aligns with the Branch’s internal credit risk management process.

Credit risk Grades

For majority of the Branch’s portfolios, the Branch assigns each exposure to a credit risk grade that is determined according to the predicted level of the risk of default. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The table below provides the 12-month PD range for each credit risk grade of retail and non-retail portfolios. The table also provides an indicative mapping of how the Branch’s internal credit risk grades relate to PD and, for the non-retail portfolio, to external credit ratings of Standard & Poor’s.

Credit risk grade	*Remarks on default risk*	*12-month PD range*	*External Rating Benchmark*
1-3	Minimal to Low risk	0.0000% to 0.0857%	AAA to A-
4-8	Moderate risk	0.0857% to 0.4290%	BBB+ to BBB-
9-11	Substantial	0.4290% to 1.6500%	BB+ to BB-
12-15	High	1.6500% to 8.3531%	B+ to B-
16-17	Very High	8.3531% to 100%	CCC+ to C
18-20	Default	100%	D

Credit risk management (continued)

(Expressed in Macau Patacas)

For the remaining portfolios without credit risk grade assignment, references of peer bank PD estimates of similar portfolios and the long-run average default rate of the portfolios are used.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Branch also collects historical performance and default information about portflios of credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios with no internal data available, information from external data sources is used.

Portfolio	*External data sources*
Debt exposures Bank	Moody's: annual default study corporate default and recovery rates
Sovereign	Moody's: Sovereign Default and Recovery Rates

The Branch's head office deploys statistical models to analyse the data collected and generate estimates of PD of exposures expected to change as a result of the passage of time. The estimation of PD term structure makes use of the annual credit risk grade transition for the portfolios with credit risk grade assignment. For the portfolios without credit risk grade assignment and no credit risk grade transition information available, the PD term structure estimation is referenced to forecast of economic index relevant to the portfolio.

LGD is the magnitude of the likely loss if there is a default. For the retail and corporate portfolio with sufficient historical loss and recovery data, the collateral recovery rates and the LGD estimates can be derived. For portfolios with insufficient historical loss and recovery data, either reference of peer bank LGD estimates of the similar portfolios or external data source are used for derivating the LGD estimates.

For portfolio with individual assessment of credit risk mitigation measures, collateral values are projected for different economic scenarios so as to reflect the LGD estimates under different economic scenario. For other portfolios different scenario portfolio LGD are derived by benchmarking to a corresponding LGDs within a long period of historical LGDs.

EAD represents the expected exposure in the event of a default. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments or undrawn limit of retail revolving products, the EAD is the potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. The EAD estimates are adopted the parameters suggested by BASEL or statistical model based on historical data.

Significant increase in credit risk

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade when the risk of the asset changes. Management of the Branch primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- the credit risk grade at the reporting date; with

- the credit risk grade at the initial recognition of the exposure.

Management of the Branch deems the credit risk of a particular exposure to have increased significantly since initial recognition if the current credit risk grade deteriorates by a pre-determined number of notches. The criteria for determining the number of notches may vary by portfolio and include a backstop based on delinquency.

As a backstop, management of the Branch presumptively considers that a significantly increase in credit risk occurs no later than when an asset is more than 30 days past due.

Management of the Branch monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular review to confirm that:

- the criteria are capable of identifying significant increase in credit risk before an exposure is in default;

- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and

- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Incorporating forward-looking information into the measurement of ECLs

The Branch's head office has identified key drivers of systematic credit risk for each portfolio of financial assets based on analysis of historical data in which relationship between macro-economic indicators and the systematic credit risk is exhibited.

The Branch's head office formulates economic forward looking scenarios for the view of the future direction of major economic indicators such as GDP, unemployment rate, property price index, interest rate and other economic indicators specific to particular portfolio.

For each portfolio, the key drivers under forward looking scenarios are applied for estimating the systematic credit risk component of an obligor's PD used in calculating ECLs. In addition to PD, relevant macro-economic indicators are used for projection of the collateral value for recovery rate estimates used in ECL calculation.

Management of the Branch adopts the use of three economic scenarios with the support of its head office. In the region where the Branch operates, probability for each scenario and forecast the major macro-economic indicators are formulated to reflect the management's forward-looking view on the future business outcomes in that region under each scenario.

Credit risk management (continued)
(Expressed in Macau Patacas)

The forecasts of baseline scenario are based on advice from the head office's in-house economic experts and considerations of a variety of actual and forecast information, such as economic data and forecasts published by governmental bodies and monetary authorities in the region where the Branch operates. Reference from forecasts by international agencies and private sector analysts are also taken as far as possible to formulate a more objective forecast, while taken into account the current domestic and international economic developments, and changes in local economic policies. Autoregressive econometric model is applied as a tool to forecast the equity and property prices movements in the regions concerned.

The baseline scenario represents the most-likely outcome that management of the Branch expects. The corresponding probability is reflecting the confidence of the future uncertainties are being captured in the baseline scenario forecast.

The other scenarios are an optimistic scenario and a pessimistic scenario, to capture the less likely, yet possible, upside and downside divergence from the baseline forecast. These scenarios and their probabilities represent the management's view that in case the future outcome is outside the expectation as in the baseline scenario, how likely it would be optimistic (i.e. unexpectedly good) or pessimistic (i.e. unexpectedly bad) and how unexpectedly good or unexpectedly bad outcomes will be, based on current economic outlook, potential domestic and international economic and political risks affecting the regions the Branch has business presence, and the strength of a region's fundamentals to weather through crises. Forecasts for these two scenarios are mainly derived based on a modification of the Bank of England's fan chart model, where we assume the divergences from the baseline scenario are derived from historical volatility of the data series. The spread for the pessimistic scenario is greater than that of the optimistic scenario to reflect the management's prudent view against downside risks.

The baseline, optimistic and pessimistic scenarios are updated quarterly to timely reflect a change in the current economic sentiment locally and internationally.

Baseline Scenario – Macau
Forecast of Key Macroeconomic Indicators (3 years average (2023 – 2025))

Scenario	***Macroeconomic Indicator***	***Macau***
Optimistic	GDP (YoY growth)	45%
	Unemployment rate	2%
Baseline	GDP (YoY growth)	29.5%
	Unemployment rate	2.4%
Pessimistic	GDP (YoY growth)	13.9%
	Unemployment rate	3%

Management overlays and adjustments may be used to capture risks not identified in the "expected credit loss" model and are applied when management of the Group and the Branch considered appropriate. All management overlays and adjustments are approved in accordance with the Group's internal credit risk management framework. Management overlays and adjustments are subject to periodic reviews and will be released when the relevant factors no longer exist and the relevant overlays and adjustments are no longer required.

Credit risk management (continued)

(Expressed in Macau Patacas)

(b) Geographical distribution of credit risk exposures

The geographical distribution is based on the countries where the counterparties were operated or located after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

Exposures to individual countries or jurisdictions, groups of countries or regions within countries amounting to 10% or more of the relevant major types of credit exposures at end of the reporting period are shown as follows:

	As at 31st December 2022					
Region	*Loans MOP*	*Undrawn commitment MOP*	*Loans and undrawn commitments provision MOP*	*Net loans and undrawn commitments MOP*	*Debt securities MOP*	*Financial derivatives MOP*
Macau						
- Banks	-	-	-	-	-	-
- Governments	31,931,437	117,984,998	82,680	149,833,755	299,693,676	-
- Public sectors	-	100,000,000	2,110	99,997,890	-	-
- Others	3,852,374,176	321,497,930	6,827,982	4,167,044,124	-	-
Hong Kong						
- Banks	-	-	-	-	-	-
- Governments	-	-	-	-	-	-
- Public sectors	-	-	-	-	-	-
- Others	2,274,562,301	89,182,642	57,652,804	2,306,092,139	-	-
China						
- Banks	650,089,329	-	862	650,088,467	-	-
- Governments	-	-	-	-	-	-
- Public sectors	-	-	-	-	-	-
- Others	280,906,350	60,231,000	52,510	341,084,840	-	-
Others						
- Banks	-	-	-	-	-	-
- Governments	-	-	-	-	-	-
- Public sectors	-	-	-	-	-	-
- Others	2,059,786	-	452	2,059,334	-	-
Total	7,091,923,379	688,896,570	64,619,400	7,716,200,549	299,693,676	-

Credit risk management (continued)

(Expressed in Macau Patacas)

Geographic region with higher than or equal to 10% of the total loans and advances to customers at the reporting date are shown as follows:

	As at 31st December 2022			
	Gross Balance	*Stage 1& 2 Provision*	*Stage 3 provision*	*Net Balance*
	MOP	MOP	MOP	MOP
Macau	3,884,305,613	842,571	5,997,894	3,877,465,148
Hong Kong	2,274,562,301	57,641,245	-	2,216,921,046
People's republic of China	930,995,679	53,368	-	930,942,311
Others	2,059,786	452	-	2,059,334
	7,091,923,379	58,537,636	5,997,894	7,027,387,849

(c) *Industry distribution on loans and advances to customers*

The following table shows the industry distribution of the loans and advances at the reporting date:

	As at 31st December 2022			
	Gross Balance	*Stage 1& 2 Provision*	*Stage 3 provision*	*Net Balance*
	MOP	MOP	MOP	MOP
Agriculture and fisheries	-	-	-	-
Mining industries	-	-	-	-
Manufacturing industries	64,801,756	25,912	-	64,775,844
Electricity, gas and water	-	-	-	-
Construction and public works	500,534,433	56,969,000	-	443,565,433
Wholesale and retail trade	299,667,967	38,783	-	299,629,184
Restaurants, hotels and similar	1,327,565,452	202,116	-	1,327,363,336
Transport, warehousing and communications	2,641,732	1,058	-	2,640,674
Non monetary financial institutions	439,991,078	659,457	-	439,331,621
Gaming	-	-	-	-
Exhibition and conference	-	-	-	-
Education	-	-	-	-
Information technology	86,773	-	-	86,773
Other industries	3,467,555,696	422,375	5,997,894	3,461,135,427
Personal loans	989,078,492	218,935	-	988,859,557
	7,091,923,379	58,537,636	5,997,894	7,027,387,849

According to AMCM's requirements, a general provision is made at 1% of the aggregated balance of performing loans and advances, guarantees and contingent assets.

Credit risk management (continued)

(Expressed in Macau Patacas)

(d) Analysis on assets and liabilities by remaining maturity

	As at 31st December 2022								
	Repayable on demand MOP	*Within 1 month* MOP	*3 months or less but over 1 month* MOP	*1 year or less but over 3 months* MOP	*3 years or less but over 1 year* MOP	*Over 3 years* MOP	*Over 5 years*	*Undated or overdue* MOP	*Total* MOP
Assets									
Cash and balances with banks and other financial institutions	230,081,472	-	-	-	-	-	-	-	230,081,472
Placements with banks and other financial institutions	-	30,884,149	2,695,951	-	-	-	-	-	33,580,100
Monetary bills at amortised cost	-	299,693,676	-	-	-	-	-	-	299,693,676
Loans and advances to customers and other accounts	181,416,140	1,329,998,072	68,720,224	975,532,592	1,863,127,588	2,656,671,437	-	40,158,857	7,115,624,910
Other assets	4,922,034	130,054	356,463	31,930	26,063	114,330	-	5,187,833	10,768,707
Fixed assets	-	-	-	-	-	-	-	122,200,705	122,200,705
	416,419,646	1,660,705,951	71,772,638	975,564,522	1,863,153,651	2,656,785,767	-	167,547,395	7,811,949,570
Liabilities									
Deposits and balances of banks and other financial institutions	1,250,188,950	-	103,000,000	1,812,800,000	1,756,150,000	-	-	-	4,922,138,950
Deposits from customers	783,905,541	516,926,990	578,694,588	407,768,008	-	-	-	-	2,287,295,127
Other accounts and provisions	4,751,539	5,647,766	7,214,094	1,612,235	-	-	-	22,554,056	41,779,690
Current taxation	-	-	-	2,793,027	-	-	-	-	2,793,027
Deferred tax liabilities	-	-	-	-	-	-	-	8,592,198	8,592,198
	2,038,846,030	522,574,756	688,908,682	2,224,973,270	1,756,150,000	-	-	31,146,254	7,262,598,992
Net inflow / (outflow)	(1,622,426,384)	1,138,131,195	(617,136,044)	(1,249,408,748)	95,003,651	2,656,785,767	-	136,401,141	549,350,578

Credit risk management (continued)

(Expressed in Macau Patacas)

(e) *Aging analysis of accounting past-due exposures*

The aging analysis of loans and advances to customers that have been past due is as follows:

	As at 31st December 2022	
	Gross loans and advances to customer MOP	*Individual impaired allowance* MOP
Gross loans that have been past due for:		
- More than 3 months but not more than 6 months	-	-
- More than 6 months but not more than 1 year	37,423,974	5,997,893
- More than 1 year	2,356,452	-
	39,780,426	-
% of total loans and advances to customers	0.561%	
Value of collateral	36,214,800	

As at 31st December 2022, there were no other assets that have been past due for more than 3 months.

Credit risk management (continued)

(Expressed in Macau Patacas)

(f) Credit quality analysis under regulatory asset classification

	As at 31st December 2022									
	12-month ECL			Lifetime ECL Not credit-impaired			Lifetime ECL Credit-impaired			Total
	Balance	Provision	Collateral	Balance	Provision	Collateral	Balance	Provision	Collateral	Total balance
	MOP	MOP	MOP	MOP	MOP	MOP	MOP	MOP	MOP	MOP
Loans and advances to customers at amortised cost										
Grades 1-15: Pass	6,680,302,042	(1,612,729)	12,882,428,613	2,060,000	(452)	-	-	-	-	6,682,362,042
Grades 16-17: Special Mention	-	-	-	369,780,911	(56,924,455)	-	-	-	-	369,780,911
Grade 18: Substandard	-	-	-	-	-	-	37,423,974	(5,997,894)	32,671,600	37,423,974
Grade 19: Doubtful	-	-	-	-	-	-	2,356,452	-	3,543,200	2,356,452
Grade 20: Loss	-	-	-	-	-	-	-	-	-	-
	6,680,302,042	(1,612,729)	12,882,428,613	371,840,911	(56,924,907)	-	39,780,426	(5,997,894)	36,214,800	7,091,923,379

Market risk management

(Expressed in Macau Patacas)

Market risk arises on all market risk sensitive financial instruments, including debt securities, foreign exchange contracts and derivative instruments, as well as from balance sheet or structural positions. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Branch's exposure to the volatility inherent in the financial instruments.

Management of the Branch's market risk is governed by the market risk management policies which are approved by the Board of Directors or the Asset and Liability Management Committee of The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong and its subsidiaries ("Group"). The Board of Directors of the Group has delegated the responsibility for day-to-day market risk management to the Asset and Liability Management Committee. The Asset and Liability Management Committee reports to the Board of Directors via the Risk Management Committee. The Asset and Liability Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk. The Asset and Liability Management Committee deals with all market risk and liquidity risk related issues of the Group. It is also responsible for conducting a regular review of interest rates trend and deciding the corresponding future business strategy.

Local Asset and Liability Management Committee at branch level is also set up, not only to manage market, interest rate, liquidity and strategic risks of the Branch, but also to discuss any issues relating to the management of the statement of financial position. Local Asset and Liability Management Committee is required to report to the Asset and Liability Management Department of the Group after meeting on a weekly basis through China Division of Head Office.

Interest rate risk management

(Expressed in Macau Patacas)

The Branch’s interest rate positions arise from treasury and commercial banking activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to positions from non- interest bearing liabilities including amounts due to Head Office and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is daily managed by the Treasury Department of the Branch within the limit approved by the Head Office.

The Branch manages the interest rate risk on the banking book primarily by focusing on the repricing mismatches. Gap analysis provides a static view of the maturity and repricing characteristics of the Branch’s financial positions. Repricing gap limits are set to control the Branch’s interest rate risk.

Stress tests on the Branch’s interest rate risk are conducted regularly by Treasury Department. The results are reviewed by the local Asset and Liability Management Committee. If necessary, remedial actions will be taken.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the statement of financial position and is performed on monthly basis. Sensitivity limits are set to control the Branch’s interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee, Risk Management Committee and the Board of Directors on a regular basis.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

(i) there is a parallel shift in the yield curve and in interest rates;

(ii) there are no other changes to the portfolio;

(iii) no loan prepayment is assumed; and

(iv) deposits without fixed maturity dates are assumed to be fully retained and repriced on the next day.

Actual changes in the Branch’s net interest income and the economic value resulting from the increases in interest rates may differ from the results of this sensitivity analysis.

Operational risk management

(Expressed in Macau Patacas)

Operational risk arises from the Branch's daily operations and fiduciary activities. It is managed through the Branch's operating and management procedures. The primary focus of these processes is to identify, assess and monitor these risks and to fulfil regulatory requirements.

The Branch has implemented a centralised operational risk management framework. All departments are required to manage operational risk within the operational risk management policies which are approved by the Board of Directors or the Operational Risk Management Committee of the Group. Local Asset and Liability Management Committee is responsible for monitoring activities relating to operational risk.

Operational risk management tools adopted include operational risk incidents reporting, control self-assessment, key risk indicators, operation manuals, insurance policies, business continuity planning, etc.

Foreign exchange risk management
(Expressed in Macau Patacas)

The Branch's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign currency positions are managed within limits approved by the Head Office.

The Branch has no significant foreign currency risk because its business is principally conducted in Macau and most of the transactions are denominated in the Branch's functional currency, Hong Kong dollar and United States dollar. Since both the MOP and Hong Kong dollar is pegged to the United States dollar, the Branch's exposure to foreign currency risk in respect of the bank balances denominated in United States dollars is considered to be minimal.

The Branch has an established control framework with respect to the measurement of foreign currency risk. This framework includes the submission of foreign currency position to Risk Management Department on a daily basis.

The following table indicates the net long/(short) position of currencies other than MOP:

	As at 31st December 2022 MOP
HKD	(347,509,744)
RMB	1,236
USD	2,281,795
Other currencies	4,988,771

Foreign exchange risk management (continued)
(Expressed in Macau Patacas)

Analysis on foreign currencies with net position constitute not less than 10% of the total net position in all currencies:

	Transaction currencies			
Assets	*HKD*	*RMB*	*USD*	*Others*
Cash and balances with banks	74,818,185	8,148,545	11,856,052	12,712,117
Placements with banks	-	28,219,100	-	5,360,996
Loans and advances to customers and other accounts	5,954,554,323	39,328	421,841,174	5,375,451
Spot assets	6,029,372,508	36,406,973	433,697,226	23,448,564
Deposits and balances of banks	(4,814,540,045)	-	(107,612,720)	-
Deposits from customers	(1,542,830,933)	(36,309,088)	(318,503,964)	(18,447,223)
Other accounts and provisions	(19,511,274)	(96,649)	(5,298,747)	(12,570)
Spot liabilities	(6,376,882,252)	(36,405,737)	(431,415,431)	(18,459,793)
Net long/(short) position	(347,509,744)	1,236	2,281,795	4,988,771

Liquidity risk management

(Expressed in Macau Patacas)

The purpose of liquidity management is to ensure sufficient cash flows are available to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Branch's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

The Branch manages liquidity risk by holding sufficient liquid assets (e.g. cash and placements with banks and other financial institutions) of appropriate quality to ensure that short term funding requirements are covered within prudent limits.

The management of the Branch's liquidity risk is governed by the liquidity risk management policies and principle as approved by the Board of Directors or the Asset and Liability Management Committee of the Group. The local Asset and Liability Management Committee is delegated by the Asset and Liability Management Committee of the Group to oversee the Branch's liquidity risk management. The Group's Asset and Liability Management Committee sets the strategy, policy and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meeting is held by local Asset and Liability Management Committee to review the compliance status of the monitoring matrix established and the needs of change in strategy and policy.

The following table summarised the key quantitative indicators for liquidity risk for the year ended 31st December 2022:

(a)	The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	51,082,417
(b)	The arithmetic mean of the average weekly amount of cash in hand	225,805,479
(c)	The arithmetic mean of the specified liquid assets at the end of each month	638,979,333
(d)	The average ratio of specified liquid asset to total basic liabilities at the end of month	*38.64%*
(e)	The arithmetic mean of its one-month liquidity ratio in the last week of each month	*77.39%*
(f)	The arithmetic mean of its three-month liquidity ratio in the last week of each month	*49.38%*

The above ratios and figures calculations are computed based on the data extracted from the weekly and monthly returns submitted to AMCM.

Other information
(Expressed in Macau Patacas)

(a) *Capital commitments*

Capital commitments outstanding at 31st December not provided for in the financial statements were as follows:

	As at 31st December 2022 MOP
Authorised and contracted for	368,753

(b) *Operating lease commitments*

At 31st December, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31st December 2022 MOP
Within 1 year	3,170,218
After 1 year but within 5 years	10,349,717
After 5 years	-
	13,519,935

The Branch leases a number of properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew. None of the leases includes contingent rentals.

Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries
(Expressed in Hong Kong dollars)

The Branch is one of the branches of The Bank of East Asia, Limited ("BEA") and therefore, it is not required to prepare consolidated accounts. Unless otherwise stated, all information disclosed below is extracted from the corresponding information in the most recently available annual audited consolidated financial statements of BEA of which the Branch is a member.

The audited consolidated financial statements can be accessed through various channels, including its website (http://www.hkbea.com). For more comprehensive understanding of the financial position and results of operations of BEA, the information disclosed below should be read in conjunction with the audited consolidated financial statements.

(a) Consolidated capital adequacy ratio

	2022
	%
Common Equity Tier 1 capital ratio	15.8
Tier 1 capital ratio	17.7
Total capital ratio	20.1

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules ("the Capital Rules") issued by the Hong Kong Monetary Authority ("HKMA"). The Bank has adopted the foundation internal ratings- based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its Tier 1 capital and Tier 2 capital subject to the thresholds as determined in accordance with Part 3 of the Capital Rules.

Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries (continued)
(Expressed in Hong Kong dollars)

(b) Capital and reserves

	As at 31st December 2022 HKD million
Total capital	41,856
Total reserves	54,131

(c) Consolidated assets, liabilities and profits position

	As at 31st December 2022 HKD million
Total assets	882,825
Total liabilities	776,479
Total gross loans and advances to customers	549,014
Deposits and balances of banks	25,478
Deposits from customers	648,093
Profit before taxation	4,941

Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries (continued)

(Expressed in Hong Kong dollars)

(d) List of shareholders with qualifying holdings

As at 31st December 2022, the interests or short positions of substantial shareholders and other persons in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (“SFO”) in Hong Kong (the “Register”) were as follows:

Long positions in ordinary shares of the Bank:

Name	*Capacity and nature*	*No. of shares*	*% of issued voting Shares*
Sumitomo Mitsui Banking Corporation	Beneficial owner	574,516,317[1]	*21.44*
Sumitomo Mitsui Financial Group, Inc.	Interest of corporation	574,516,317[1]	*21.44*
Criteria Caixa, S.A., Sociedad Unipersonal	Beneficial owner	508,519,6842	*18.97*
Fundación Bancaria Caixa d’Estalvis I Pensions de Barcelona, “la Caixa”	Interest of corporation	508,519,684[2]	*18.97*
Guoco Management Company Limited	Beneficial owner	435,691,137[3,4]	*16.26*[5]
Guoco Group Limited	Interest of corporation	435,691,137[3]	*16.26*
GuoLine Overseas Limited	Interest of corporation	435,691,137[3]	*16.26*[5]
GuoLine Capital Assets Limited	Interest of corporation	435,691,137[3]	*16.26*
QUEK Leng Chan	Interest of corporation	435,691,137[3]	*16.26*
Hong Leong Investment Holdings Pte. Ltd.	Interest of corporation	435,691,137[4]	*16.26*
Davos Investment Holdings Private LimiteGd	Interest of corporation	435,691,137[4]	*16.26*
KWEK Leng Kee	Interest of corporation	435,691,137[4]	*16.26*

Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries (continued)

(Expressed in Hong Kong dollars)

Notes:

1 *Sumitomo Mitsui Financial Group, Inc. owned a 100% interest in Sumitomo Mitsui Banking Corporation. Sumitomo Mitsui Financial Group, Inc. was deemed to be interested in the 574,516,317 Shares held by Sumitomo Mitsui Banking Corporation.*

2 *Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" ("la Caixa") owned a 100% interest in Criteria Caixa, S.A., Sociedad Unipersonal ("Criteria Caixa"). "la Caixa" was deemed to be interested in the 508,519,684 Shares held by Criteria Caixa.*

3 *The references to 435,691,137 Shares in Notes 3 and 4 relate to the same block of Shares. Guoco Management Company Limited was the beneficial owner of 435,691,137 Shares. GuoLine Overseas Limited held a 71.88% interest in Guoco Group Limited, which in turn owned a 100% interest in Guoco Management Company Limited. GuoLine Overseas Limited and Guoco Group Limited were both deemed to be interested in the 435,691,137 Shares held by Guoco Management Company Limited. GuoLine Capital Assets Limited was deemed to be interested in the 435,691,137 Shares held by Guoco Management Company Limited by virtue of its 100% interest in GuoLine Overseas Limited.*

QUEK Leng Chan was deemed to be interested in the 435,691,137 Shares held by Guoco Management Company Limited by virtue of his 49.11% interest in GuoLine Capital Assets Limited.

4 *The references to 435,691,137 Shares in Notes 3 and 4 relate to the same block of Shares. GuoLine Capital Assets Limited was 34.49% held by Hong Leong Investment Holdings Pte. Ltd., which was in turn 33.59% held by Davos Investment Holdings Private Limited. Hong Leong Investment Holdings Pte. Ltd. and Davos Investment Holdings Private Limited were deemed to be interested in the 435,691,137 Shares held by Guoco Management Company Limited by virtue of their interests in GuoLine Capital Assets Limited.*

KWEK Leng Kee was deemed to be interested in the 435,691,137 Shares held by Guoco Management Company Limited by virtue of his 41.92% interest in Davos Investment Holdings Private Limited.

5 *GuoLine Overseas Limited is a wholly-owned subsidiary of GuoLine Capital Assets Limited and Guoco Management Company Limited is a wholly-owned subsidiary of Guoco Group Limited. With the filing of the substantial shareholder notices by GuoLine Capital Assets Limited and Guoco Group Limited, GuoLine Overseas Limited and Guoco Management Company Limited do not need to file their respective substantial shareholder notices under the "wholly-owned group exemption" as provided in the SFO.*

6 *The percentages of shareholding in the table were calculated based on the number of total issued Shares of the Bank as at 31st December, 2022, being 2,680,219,456 Shares.*

Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries (continued)
(Expressed in Hong Kong dollars)

(e) Board of Directors

The Board of Directors of the Bank comprises:

Executive Directors

Dr. the Hon. Sir David LI Kwok-po *(Executive Chairman)*
Mr. Adrian David LI Man-kiu *(Co-Chief Executive)*
Mr. Brian David LI Man-bun *(Co-Chief Executive)*

Non-executive Directors

Professor Arthur LI Kwok-cheung *(Deputy Chairman)*
Mr. Aubrey LI Kwok-sing
Mr. Winston LO Yau-lai
Mr. Stephen Charles LI Kwok-sze
Dr. Daryl NG Win-kong
Mr. Masayuki OKU
Dr. Francisco Javier SERRADO TREPAT

Independent Non-executive Directors

Dr. Allan WONG Chi-yun *(Deputy Chairman)*
Dr. the Hon. Rita FAN HSU Lai-tai
Mr. Meocre LI Kwok-wing
Dr. the Hon. Henry TANG Ying-yen
Dr. Delman LEE
Mr. William Junior Guilherme DOO
Dr. David MONG Tak-yeung