

The Macau Chinese Bank Limited

Disclosure of Financial Information

For the year ended 31 December 2022

Index for Disclosure of Financial Information

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The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

Prepared as per

AMCM's guidelines dated 05/08/2022 (Circular no.006/B/2022-DSB/AMCM)

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1. Article ° 75(1) of FSAM (Financial System Act of Macau)

(1) Balance Sheet

Year ended 31 December 2022

	2022	2021
	MOP	MOP
ASSETS		
Cash and balances with banks	1,927,864,194.16	2,771,141,552.80
Deposits with Monetary Authority	249,119,540.91	993,780,236.64
Placements with banks	395,843,017.25	421,932,500.00
Monetary bills with Monetary Authority	398,528,489.64	-
Loans and advances to customers	7,995,740,236.91	7,897,686,866.87
Receivables and other assets	173,358,314.57	128,169,543.06
Available-for-sale investments	-	282,386,978.08
Held-to-maturity investments	-	438,022,650.95
Amortized-Cost investments	314,950,352.65	-
Fair-Value-through-Other-Comprehensive Income investments	612,531,695.50	-
Fair-Value-through-Profit & Loss investments	12,798,809.98	-
Property and equipment	115,442,960.96	120,474,421.87
Investment property	175,100,000.00	175,100,000.00
Total assets	12,371,277,612.53	13,228,694,750.27
LIABILITIES		
Deposits from banks	534,594,000.00	882,680,700.00
Deposits from customers	10,493,740,484.20	10,810,049,890.15
Payables and other liabilities	111,118,403.33	152,664,178.44
Tax payable	-	1,118,972.00
Bonds issued	180,000,000.00	180,000,000.00
Deferred tax liabilities	14,222,573.81	20,891,346.04
Provision for risks	-	7,915,756.19
Total liabilities	11,333,675,461.34	12,055,320,842.82
EQUITY		
Capital	800,000,000.00	800,000,000.00
Legal reserve	68,311,107.65	57,572,295.24
Other reserve(Note)	-	75,928,685.00
General regulatory reserves	43,189,404.64	-
Specific regulatory reserves	-	-
Asset revaluation reserve	37,189,517.30	37,189,517.31
Investment revaluation reserve	(17,835,917.96)	3,740,674.19
Retained earnings	88,948,131.81	145,248,673.64
Profit for the year	17,799,907.75	53,694,062.07
Total equity	1,037,602,151.19	1,173,373,907.45
Total liabilities and equity	12,371,277,612.53	13,228,694,750.27

Note: "Other reserves" at 31 December 2021 includes an additional provision for MOP75,928,685 on different risks provided in accordance with circular No. 18/93-AMCM of Monetary Authority of Macao.

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

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1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(2) Statement of Profit or Loss

Year ended 31 December 2022

	2022	2021
	MOP	MOP
Interest income	415,870,658.40	338,589,136.47
Interest expense	<u>(212,183,787.76)</u>	<u>(189,884,728.69)</u>
Net interest income	<u>203,686,870.64</u>	<u>148,704,407.78</u>
Fee and commission income	8,051,138.99	28,607,274.88
Fee and commission expenses	<u>(7,037,738.25)</u>	<u>(6,040,161.45)</u>
Net fee and commission income	<u>1,013,400.74</u>	<u>22,567,113.43</u>
Other operating income, net	10,405,067.25	5,895,165.62
Changes in fair value of investments in securities at fair value through profit or loss	(20,945,108.44)	-
Operating expenses	<u>(123,752,115.89)</u>	<u>(110,854,631.95)</u>
	70,408,114.30	66,312,054.88
Net charge of impairment allowances	<u>(55,064,594.28)</u>	<u>(12,721,181.81)</u>
PROFIT BEFORE TAX	15,343,520.02	53,590,872.07
Income tax credit	<u>2,456,387.73</u>	<u>103,190.00</u>
PROFIT FOR THE YEAR	<u><u>17,799,907.75</u></u>	<u><u>53,694,062.07</u></u>

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1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(2) Statement of Comprehensive Income (continued)

Year ended 31 December 2022

	2022	2021
	MOP	MOP
OTHER COMPREHENSIVE INCOME	<u>17,799,907.75</u>	<u>53,694,062.07</u>
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Investments in debt securities at fair value through other comprehensive income/available-for-sale investments:		
Changes in fair value	(19,051,150.05)	3,655,670.01
Release upon redemption/disposal reclassified to profit or loss	(337,967.00)	2,843,073.09
Changes in impairment allowances	2,823,161.18	-
Income tax effect	<u>2,375,550.34</u>	<u>(36,804.00)</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods, net of tax	<u>(14,190,405.53)</u>	<u>6,461,939.10</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Investments in equity securities at fair value through other comprehensive income:		
Changes in fair value	(6,895,182.80)	-
Income tax effect	<u>308,818.57</u>	<u>-</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods, net of tax	<u>(6,586,364.23)</u>	<u>-</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	<u>(20,776,769.76)</u>	<u>6,461,939.10</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	<u>(2,976,862.01)</u>	<u>60,156,001.17</u>

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1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(3) Off-balance-sheet Exposures other than Derivatives Transactions

Year ended 31 December 2022

	MOP
Values received for custody	54,356,358.17
Values as collateral	9,979,540,051.23
Bank guarantees	678,969,159.05
Letters of credit issued	493,359.83
Other memorandum items	164,882,033.90
	<hr/> 10,878,240,962.18 <hr/>

1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(4) Summary of Business Report

Summary of Business Report

In 2022, the global economy did not show the sign of recovery as people expected. The COVID-19 epidemic continued, and the global economic activities generally slowed down and be more serious than expected. Facing the severe external economic environment, all employees of The Macau Chinese Bank with strong desire to move forward, took business “stability” as core direction, and sound operation and tough risk management control as the subsidiary. In the midst of the epidemic and the complex economic turmoil of the world, they however handed over a hard to come by annual result.

The Bank maintained sound and stable operation to ensure business quality, and with its utmost ability, expanded the base radius of business development as well. The new opening of Fai Chi Kei Branch had further extended the service delivery channel, enhanced service capability and provided the Bank with an important step toward to an all-round branch banking network. The enhancement of electronic banking services had also achieved remarkable results, and the collaboration of online and offline banking services had also improved the overall service quality.

During the year, the Bank continued its great effort to maintain stabilized business and to deepen the layout of business diversification. The increasing activities of the domestic bond market had been obvious, which provided additional source of impetus for the Bank to maintain its sustainable business development. For retail banking products, the Bank was able to eliminate the old ideas and launched new ones to keep up with market changes and customer needs in order to strengthen further the expansion of the customer base.

With consistent tough and stable management, the Bank was able to improve consistently its ability in risk management control process, and as a result, rewarded the Bank with a safe and solid backup for its business development strategy. For purpose to promote high quality service products as directed by the concept of "progressively moving forward", the Bank adhered strictly to all the important guidelines as guided by the risk management and control policies especially those in the key area of "stability" in order to pave a safe and solid footing stone for further business development.

1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(4) Summary of Business Report (continued)

To keep up with the strong believe in achieving successful business career begins with the mind to insistently carry on the original goals without stepping back when encountering difficulties. In view of this, The Macau Chinese Bank, as a local bank, had built up its image in the Macau banking industry and achieved market recognition, customer satisfaction, shareholder affirmation and employee trust, which in return, safeguarding customer interests and financial stability through the course of stable operation.

Looking forward to 2023, the Bank will continue its strong desire to adhere strictly to all the key requirements of “stability” and “progressively moving forward” concept in the risk management and control process, the Bank will also strictly follow and fully support its vision in carrying out the existing business development direction to be closely integrated with the national strategy, and also takes the initiative to integrate its direction into the developing pattern of the Greater Bay Area, uphold its faith to realize the value of customers, shareholders and society, and to break the waves to move forward without any hesitation.

Chairman of the Board of Directors

Liu Shuangquan

31st March, 2023, Macao

1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(5) Report from the Supervisory Board

Report of the Supervisory Board

In 2022, owing to its continuous effort in monitoring and following up with the overall operations and business activities of the Bank and the frequent contact with the Board of Directors, the Supervisory Board was able to achieve better information and cooperation to perform its supervisory function over the Bank in an effective and efficient manner.

After having reviewed and analyzed the Bank's Financial Statements of 2022, the Supervisory Board is of the opinion that the Financial Statements reflect clearly and truly the assets and liabilities, the economic and financial position of the Bank.

In view of this, the Supervisory Board agrees that the Financial Statements for the year of 2022 submitted by the Board of Directors should be presented to the Shareholders' Annual General Meeting for approval.

Chairman of the Supervisory Board

Wang Qingping

31st March 2023, Macao

1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(6) Summary of the External Auditors' Report

Independent Auditor's Report

To the shareholders of The Macau Chinese Bank Limited

(Incorporated in Macao with limited liability by shares)

We have audited the financial statements of The Macau Chinese Bank Limited (the "Bank") set out on pages 3 to 59, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Macao Financial Reporting Standards under the Order of the Secretary for Economy and Finance No.44/2020 ("Macao Financial Reporting Standards"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Auditing Standards issued by the Professional Committee of Accountants under the Notice No.2/2021/CPC. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(6) Summary of the External Auditors' Report (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Macao Financial Reporting Standards.

CHAN Wai, CPA

Ernst & Young

Certified Public Accountants

31st March 2023, Macao

The Macau Chinese Bank Ltd.

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1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(7) List of Institutions with more than 5% Interests

	List of Institutions	% of interests
More than 5% of relevant capital*	Zhuhai Aohuayu Technology Company Limited	100%
More than 5% of its own funds	Nil	-

* At the end of the reporting period, Zhuhai Aohuayu Technology Company Limited was still in preparation. The Bank had yet to inject capital.

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1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(8) List of Shareholders with Qualifying Holdings

SHAREHOLDERS:

Nam Yue (Group) Company Limited (Set up in Macao) (56%)

Wong Garrick Jorge Kar Ho (18%)

Ho Hon Cheong (9%)

Ho Hon Kong (9%)

Lam Ka Vai Carlos (8%)

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1. Article ° 75(1) of FSAM (Financial System Act of Macau) (continued)

(9) Names of the Members of the Company Boards

LIST OF PRESIDUM OF THE SHAREHOLDERS'S MEETING

Chairman: Nam Yue (Group) Company Limited

Members: Wong Garrick Jorge Kar Ho

Ho Hon Cheong

Ho Hon Kong

Lam Ka Vai Carlos

Secretary: Yu Peihuan

SUPERVISORY BOARD:

Chairman: Zhou Hao

Members: CSC & Associados-Sociedade de Auditores (Represented by Mr. Chui Sai Cheong)

Chui Calvin Tinlop

BOARD OF DIRECTORS

Acting Chairman: Yau Wai Chu

Directors: Yau Wai Chu

Wong Garrick Jorge Kar Ho

Ho Hon Kong

Lam Ka Vai Carlos

Chan Tat Kong

Li Rongzhou

Cheng Sai Chong

Secretary: Yu Peihuan

31st March 2023, Macao

2. Corporate Governance

The Macau Chinese Bank, Ltd. adopts a high standard of Corporate Governance practices in compliance with regulatory requirements. Under the Corporation Governance practices, each of the General Meetings, the Board of Directors, the Supervisory Board and the Senior Management has clearly defined responsibilities and accountability, coordination as well as an effective check and balance system.

Responsibilities of the Shareholders' General Meeting

The Shareholders' General Meeting is responsible for giving direction on strategic business and major investment planning of the Bank; reviewing and approving of the annual financial budget, annual financial report recommended by the Board of Directors; electing and replacing members of Board of Directors and Supervisory Board including Independent members.

Responsibilities of the Supervisory Board

As the governing body of the Bank, the Supervisory Board shall report to the Shareholders' General Meeting for adoption. The main responsibility of the Supervisors Board is to oversee the performance of duties by the Board of Directors and the Senior Management; supervise and review the Bank's financial activities and reports.

Responsibilities of the Board of Directors

Being the highest authority of the Bank, the Board of Directors shall report to the Shareholders' General Meeting on the overall performance of the Bank; give direction on business plans and strategies of the Bank; review and approve the annual financial budgets and annual financial report and recommend to the Shareholders' General Meeting for adoption; define principle and policy guidelines on risk management and internal control, and supervise the implementation to ensure adherence. In this respect, The Board of Directors delegates its authority to formulate the Executive Committee to oversee and to ensure the overall operations of the Bank are in compliance with the policies and guidelines and the Bank is run in a sound and efficient manner in accordance with the directions, objectives and goals of the shareholder.

2. Corporate Governance (continued)

Responsibilities of the Senior Management

The Senior Management is responsible for implementing the decisions of the Board of Directors, coordinating and organizing the functional departments of the Bank to complete the business objectives set by the Board of Directors; formulating systematic policies, processes and methods according to the risk policies determined by the Board of Directors, and adopting corresponding risk control measures; responsible for establishing and improving internal organizational structure to ensure the effective performance of various responsibilities in the internal control mechanism; responsible for providing adequate human resource support for functional departments to effectively perform their duties.

Responsibilities of the Business Development Planning Committee:

The Business Development Planning Committee is a specialized working body under the Board of Directors, responsible for formulating specific business development plans according to the strategic requirements put forward by the Board of Directors, and detailing them into short, medium, and long-term development plans; Supervises and implements the short, medium, and long-term development plans for the Bank's business development; reviews the matching degree between policies construction and business development, and clarifies annual policy construction goals and tasks. Comparing quantitative indicators, qualitative indicators and peer development, regularly evaluate and review the effectiveness of implementing short, medium, and long-term work plans, and report the work achievement to the Board of Directors.

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3. Cash Flow Statement

Year ended 31 December 2022

	2022 MOP	2021 MOP
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	15,343,520	63,755,459
Adjustments for:		
Depreciation of property and equipment	20,854,468	19,568,377
Amortisation of discount on debt securities	-	954,097
Changes in fair value of investments in securities at fair value through profit or loss	20,945,108	-
Unrealised foreign exchange differences relating to investments in securities	14,864,532	(4,032,785)
Net charge of impairment allowances	55,069,466	2,556,596
Loss on redemption/disposal of available-for-sale investments	-	3,538,316
Loss on redemption/disposal of held-to-maturity investments	-	1,967,501
Loss on redemption/disposal of investments in debt securities	339,015	-
Loss on disposal of items of property and equipment	3,335	-
	<u>127,419,444</u>	<u>88,307,561</u>
Increase in loans and advances to customers	(278,120,821)	(1,079,296,426)
(Increase)/decrease in receivables and other assets	(46,209,009)	57,758,660
(Decrease)/increase in deposits from banks	(348,086,700)	882,680,700
Decrease in deposits from customers	(316,309,406)	(286,226,131)
Decrease in payables and other liabilities	(19,862,810)	(79,974,472)
	<u>(881,169,302)</u>	<u>(416,750,108)</u>
Cash flows used in operating activities	(881,169,302)	(416,750,108)
Income tax paid	(1,118,972)	-
Net cash flows used in operating activities	<u>(882,288,274)</u>	<u>(416,750,108)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	-	(315,073,164)
Proceeds from disposal of held-to-maturity investments	-	400,599,352
Purchases of available-for-sale investments	-	(267,474,552)
Proceeds from disposal of available-for-sale investments	-	177,599,976
Purchases of investments in securities	(535,471,836)	-
Proceeds from redemption/disposal of investments in securities	228,316,280	-
Purchases of items of property and equipment	(15,826,342)	(13,606,173)
Proceeds from redemption of monetary bills with Monetary Authority	-	1,380,000,000
Purchases of monetary bills with Monetary Authority	(398,666,033)	-
Net cash flows (used in)/from investing activities	<u>(721,647,931)</u>	<u>1,362,045,439</u>

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3. Cash Flow Statement (continued)

Year ended 31 December 2022

	2022 MOP	2021 MOP
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	200,000,000
Dividends paid	(9,971,814)	(62,228,671)
Net cash flows (used in)/from financing activities	(9,971,814)	137,771,329
NET (DECREASE)/INCREASE IN		
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year (restated)	(1,613,908,019)	1,083,066,660
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,186,734,771	3,103,787,630
	<u>2,572,826,752</u>	<u>4,186,854,290</u>
ANALYSIS OF BALANCES OF CASH AND CASH		
ANALYSIS OF BALANCES OF CASH AND CASH		
Cash and balances with banks	1,927,864,194	2,771,141,553
Deposits with Monetary Authority	249,119,541	993,780,237
Placements with banks with original maturity of less than three months	395,843,017	421,932,500
	<u>2,572,826,752</u>	<u>4,186,854,290</u>



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4. Derivatives Transactions

NIL

5. Summary of Significant Accounting Policies

Basis of Preparation and Presentation

These financial statements have been prepared in accordance with Macao Financial Reporting Standards under the Order of the Secretary for Economy and Finance No.44/2020 ("MFRSs").

The Bank established "Zhuhai Aohuayu Technology Company Limited" this year. At the end of the reporting period, The Company is still in the preparation, so there is no basis of consolidation in this report.

These financial statements have been prepared on a historical cost basis, except for an investment property and certain investments in securities which have been measured at fair value. These financial statements are presented in Macao patacas ("MOP").

Changes in Accounting Policies and Disclosures

Effective from 28 March 2020, the Macao Special Administrative Region has promulgated a number of new and revised MFRSs with mandatory application for accounting periods beginning on or after 1 January 2022 and superseded the Macao Financial Reporting Standards under Administrative Regulation No.25/2005. The Company adopted the following new and revised MFRSs in the financial statements in the current year.

The new and revised IFRSs and interpretations have been applied for the first time in 2022, but did not have a material impact on the accounting policies of the Bank and the methods of computation in the Bank's financial statements, except as described below.

IFRS 7 - Financial Instruments: Disclosures

IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been included/revised where appropriate.

IFRS 9 - Financial Instruments

IFRS 9 introduces requirements for the classification and measurement of financial assets and financial liabilities; impairment for financial assets; and general hedge accounting.

The Bank has applied the classification and measurement requirements (including impairment) of IFRS 9 retrospectively as at 1 January 2022 (date of initial application) to instruments that have not been derecognised as at 1 January 2022 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2022. The difference between the carrying amounts as at 31 December 2021 and the carrying amounts as at 1 January 2022 is recognised in the opening accumulated losses of equity as at 1 January 2022, without restating comparative information. No hedge accounting has applied by the Bank as at 1 January 2022.

(a) Changes to classification and measurement

Financial assets are required to be classified into one of the following measurement categories: (1) measured subsequently at amortised cost, (2) measured subsequently at fair value through other comprehensive income or (3) measured subsequently at fair value through profit or loss. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the Bank's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments, or the election of fair value option.

5. Summary of Significant Accounting Policies(continued)

Changes in Accounting Policies and Disclosures(continued)

IFRS 9 - Financial Instruments(continued)

(a) Changes to classification and measurement(continued)

On 1 January 2022, the Bank's management has assessed which business models apply to the financial assets held by the Bank and has classified its financial instruments into the appropriate IFRS 9 categories. A reconciliation between the original carrying amounts and the balances reported under IFRS 9 as at 1 January 2022 is as follows:

	Original classification	New classification under IFRS 9	Original gross carrying amount MOP	Re-classification MOP	Re-measurement MOP	New gross carrying amount under IFRS 9 MOP
Financial assets						
Cash and balances with banks	L&R	AC	2,771,141,553	-	-	2,771,141,553
Deposits with AMCM	L&R	AC	993,780,237	-	-	993,780,237
Placements with banks	L&R	AC	421,932,500	-	-	421,932,500
Loans and advances to customers	L&R	AC	7,904,739,497	-	-	7,904,739,497
Financial assets included in receivables and other assets	L&R	AC	114,074,214	(7,637,178)	-	106,437,036
	N/A	FVOCI	-	6,891,507	-	6,891,507
	N/A	FVPL	-	745,671	-	745,671
Available-for-sale investments	AFS	N/A	282,386,978	(282,386,978)	-	-
Held-to-maturity investments	HTM	N/A	438,022,651	(438,022,651)	-	-
Investments in securities	N/A	AC	-	282,233,279	-	282,233,279
	N/A	FVOCI	-	393,604,477	(5,583,259)	388,021,218
	N/A	FVPL	-	44,571,873	(7,900,118)	36,671,755
Total financial assets			12,926,077,630	-	(13,483,377)	12,912,594,253

There has been no impact on the Bank's accounting for financial liabilities as the new requirements under IFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities.

(b) Impairment

The standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses ("ECL"). The impairment for financial instruments that are subsequently measured at amortised cost, fair value through other comprehensive income, irrevocable loan commitments and financial guarantee contracts will be governed by this standard. Specifically, it requires entities to assess credit risk and estimate ECL with an unbiased and probability-weighted approach. Not only information about past events, but all available information including current conditions and forecast of future economic conditions should be considered with discounting for time value of money.

The Bank has accounted for expected credit losses within the next 12 months as Stage 1 when those financial instruments are first recognised; and to recognise full lifetime expected credit losses as Stage 2 on a more timely basis when there have been significant increases in credit risk since initial recognition. Full lifetime expected credit losses will also be recognised as Stage 3 if objective evidence of impairment occurred and interest accrual will then be net of the impairment amount of associated Stage 3 financial assets.

5. Summary of Significant Accounting Policies(continued)

Changes in Accounting Policies and Disclosures(continued)

IFRS 9 - Financial Instruments(continued)

(b) Impairment(continued)

The following table reconciles the aggregate opening impairment allowances to the ECL allowances under IFRS 9.

	Impairment allowances at 31 December 2021 MOP	Re-measurement MOP	ECL allowances under IFRS 9 at 1 January 2022 MOP
Cash and balances with banks	-	112,788	112,788
Placements with banks	-	6,731	6,731
Loans and advances to customers	14,968,386	108,786,309	123,754,695
Investments in debt securities, at AC	-	139,247	139,247
Investments in debt securities, at FVOCI	-	298,702	298,702
Financial assets included in receivables and other assets	-	676,536	676,536
Contingent liabilities	-	1,184,695	1,184,695
	<u>14,968,386</u>	<u>111,205,008</u>	<u>126,173,394</u>

(c) Impact on reserves and retained profits

The Bank has taken an exemption in accordance with the transitional provision of IFRS 9 not to restate comparative information for prior periods with respect to classification and measurement and impairment. The adoption of IFRS 9 reduced the net assets after tax at 1 January 2022 by approximately MOP123 million in aggregate. The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balances of reserves and retained profits.

	Reserves and retained profits MOP
Reserve for investment revaluation reserve	
Closing balance as at 31 December 2021	3,740,674
Reclassification and remeasurement of debt securities from amortised cost to fair value through other comprehensive income	
- Change in fair value	(1,248,323)
- Deferred tax	149,799
Recognition of expected credit losses for debt investments at fair value through other comprehensive income under IFRS 9	298,702
Balance as at 1 January 2022 under IFRS 9	<u>2,940,852</u>
Retained profits	
Closing balance as at 31 December 2021	274,871,422
Remeasurement impact of reclassifying debt securities to fair value through profit or loss	(10,675,462)
Recognition of IFRS 9 ECLs	(111,205,008)
Deferred tax in relation to the above	(142,789)
Balance as at 1 January 2022 under IFRS 9	<u>152,848,163</u>

5. Summary of Significant Accounting Policies(continued)

Fair Value Measurement

The Bank measures its investment property and available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

Impairment of Non-Financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment property), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

5. Summary of Significant Accounting Policies(continued)

Impairment of non-financial assets

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, (only if there are revalued assets in the financial statements) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

<1> the party is a person or a close member of that person's family and that person

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

<2> the party is an entity where any of the following conditions applies:

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

5. Summary of Significant Accounting Policies(continued)

Property and Equipment and Depreciation

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

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

Depreciation is calculated on the straight-line method to write off the cost of each item of property and equipment to its residual value over its estimated useful life as follows:

Land and building	100 years or remaining useful life, whichever is shorter
Furniture, fixtures and equipment	3 to 10 years
Computer equipment	3 to 8 years
Motor vehicles	10 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment Property

Investment property is interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair value of an investment property is included in the statement of profit or loss in the year in which it arises.

Any gain or loss on the retirement or disposal of an investment property is recognised in the statement of profit or loss in the year of the retirement or disposal.

5. Summary of Significant Accounting Policies(continued)

Investment Property (continued)

Transfer is made to/from investment property when, only when, there is a change in use, evidenced by the ending/commencement of owner occupation. For a transfer from investment property to owner-occupied property, the deemed cost of such property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under "Property and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as an asset revaluation reserve. On disposal of the asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to the retained profits as a movement in reserves.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Bank is the lessor, assets leased by the Bank under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Bank is the lessee, rentals payable under the operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating lease are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as finance lease in property and equipment.

Investments and other financial assets (policies applicable from 1 January 2022)

Initial Recognition and Measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient of not adjusting the effect of a significant financing component, the Bank initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

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

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

5. Summary of Significant Accounting Policies(continued)

Investments and other financial assets (policies applicable from 1 January 2022) (continued)

Subsequent measurement

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

(1) Financial assets at amortised cost (debt instruments)

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

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired. Financial assets at amortised cost include cash and balances with banks, deposits with Monetary Authority, placements with banks, monetary bills with Monetary Authority, loans and advances to customers, investments in securities at amortised costs and financial assets included in receivables and other assets.

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

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

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

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

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

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

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

5. Summary of Significant Accounting Policies(continued)

Investments and other financial assets (policies applicable from 1 January 2022) (continued)

Subsequent measurement(continued)

(4) Financial assets at fair value through profit or loss

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

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

Reclassification of financial assets

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

Derecognition of financial assets

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

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

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

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

5. Summary of Significant Accounting Policies(continued)

Investments and other financial assets (policies applicable before 1 January 2022)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets.

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

Subsequent measurement

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

(1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment is recognised in profit or loss.

(2) Held-to-maturity investments

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

(3) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

5. Summary of Significant Accounting Policies (continued)

Investments and other financial assets (policies applicable before 1 January 2022) (continued)

Subsequent measurement (continued)

(3) Available-for-sale investments (continued)

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss in accordance with the policies set out for "Revenue recognition" below.

The Bank evaluates whether the ability and intention to sell its available-for-sale investments in the near term are still appropriate. When, in rare circumstances, the Bank is unable to trade these financial assets due to inactive markets, the Bank may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets (policies applicable before 1 January 2022)

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

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

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

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

5. Summary of Significant Accounting Policies(continued)

Impairment of financial assets (policies applicable from 1 January 2022)

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

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

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

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

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

5. Summary of Significant Accounting Policies(continued)

Impairment of financial assets (policies applicable before 1 January 2022)

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Bank first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank.

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

Available-for-sale financial investments

For available-for-sale investments, the Bank assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investments is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

5. Summary of Significant Accounting Policies(continued)

Impairment of financial assets (policies applicable before 1 January 2022) (continued)

Available-for-sale financial investments(continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss - is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Bank evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Bank's financial liabilities include deposits from banks, deposits from customers, payables and other liabilities and bonds issued.

Subsequent measurement of loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss.

5. Summary of Significant Accounting Policies(continued)

Derecognition of Financial Liabilities

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

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

Offsetting of Financial Instruments

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

5. Summary of Significant Accounting Policies(continued)

Income Tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Bank has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

5. Summary of Significant Accounting Policies(continued)

Revenue recognition (policies applicable after 1 January 2022)

Interest income

(1) The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Similar to interest-bearing financial assets classified as available-for-sale or held to maturity under IAS 39, interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

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

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

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

(2) Presentation of net interest income

With effect from 1 January 2022, paragraph 82(a) of IAS 1 requires interest revenue calculated using the EIR method to be presented separately in the statement of profit or loss. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

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

(3) Interest and similar income/expense

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

5. Summary of Significant Accounting Policies(continued)

Revenue recognition (policies applicable after 1 January 2022) (continued)

Interest income (continued)

(3) Interest and similar income/expense(continued)

In its interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in note 5. Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in Net trading income.

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

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

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

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

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

- Fee and commission income from providing services where performance obligations are satisfied at a point in time
- Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, brokerage and underwriting fees.

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

Net trading income

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

5. Summary of Significant Accounting Policies(continued)

Revenue recognition (policies applicable after 1 January 2022) (continued)

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

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

Revenue recognition (policies applicable before 1 January 2022)

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

- (a) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets;
- (b) fees and commission income, when the relevant services have been rendered; and
- (c) rental income, on a time proportion basis over the lease terms.

Retirement Benefits Scheme

The Bank operates a defined contribution retirement benefit scheme for its employees. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the scheme.

Foreign Currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

6. Related Party Transaction

(1) Qualitative Disclosure

Definition of Related Parties

<1> the party is a person or a close member of that person's family and that person

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

<2> the party is an entity where any of the following conditions applies:

- (a) the entity and the Bank are members of the same group;
- (b) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (c) the entity and the Bank are joint ventures of the same third party;
- (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (e) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
- (f) the entity is controlled or jointly controlled by a person identified in<1>;
- (g) a person identified in <1>(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

6. Related Party Transactions(continued)

(2) Quantitative Disclosures - Transactions and Outstanding Balances

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Bank had the following transactions with related parties during the year and outstanding balances with related parties at the end of the reporting period:

	Notes	2022 MOP	2022 MOP
Rental expenses	(1)	4,121,216	3,964,770
Service fee	(2)	4,479,770	4,190,458
Payables and other liabilities	(3)	218,649	719,024
Receivables and other assets	(4)	519,895	-
Deposits from customers:			
Directors of the Bank		53,830,317	29,894,268
Related companies of the Bank*		<u>212,845,636</u>	<u>249,971,979</u>

*Related companies include the immediate holding company and fellow subsidiaries of the Bank.

Notes:

- (1) Rental expenses were paid to related companies for the lease of office properties based on the market price.
- (2) Service fee was paid to a related company for the provision of consultation services based on the actual costs incurred.
- (3) Balance represented payables to a fellow subsidiary for renovation of office properties which was unsecured, interest-free and payable within 12 months.
- (4) Balance represented rental deposits received from a fellow subsidiary which was unsecured and interest-free.

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

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6. Related Party Transaction (continued)

(2) Quantitative Disclosures - Transactions and Outstanding Balances (continued)

(b) Compensation of key management personnel of the Bank

	2022	2022
	MOP	MOP
Short term employee benefits	<u>2,806,622</u>	<u>2,622,408</u>

In the opinion of the directors, these balances and transactions were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business.

7. Capital

(1) Qualitative Disclosure

The primary objective of the Bank's capital management is to maintain a strong capital base to support its business and to meet the regulatory capital requirement.

The Bank manages its capital structure and makes adjustments to it, in light of changes in economic conditions. Under the terms of Macao banking legislation, the Bank is required to transfer to a legal reserve an amount equal to a minimum of 20% of its annual profit after tax until the amount of the reserve is equal to 50% of their respective issued and fully paid up share capital. Thereafter, transfers must continue at a minimum annual rate of 10% of its annual profit after tax until the reserve is equal to the Bank's issued and fully paid up share capital. This reserve is only distributable in accordance with certain limited circumstances prescribed by statute. No changes were made in the objectives, policies or processes during the years ended 31 December 2022 and 31 December 2021.

As at 31 December 2022, the Bank has maintained the Capital Adequacy Ratio at 17.01% (2021: 17.48%), which was above the requirement of the AMCM of 15%.

(2) Quantitative Disclosure

<1> components of own funds & solvency ratio

(a) Issued Capital

	2022	2021
	MOP	MOP
Authorised		
8,000,000 (2021: 8,000,000) shares of MOP100 each	<u>800,000,000</u>	<u>800,000,000</u>
Issued and fully paid:		
8,000,000 (2021: 8,000,000) shares of MOP100 each	<u>800,000,000</u>	<u>800,000,000</u>

7. Capital (continued)

(2) Quantitative Disclosure (continued)

<1> components of own funds & solvency ratio (continued)

(b) Components of own funds

	2022
CORE CAPITAL	'000MOP
Issued capital	800,000
Legal reserve	68,311
Profits brought forward	88,948
Current year net profits	17,800
Total Core Capital	975,059
SUPPLEMENTARY CAPITAL	
General provision	83,674
Bonds issued	180,000
Total Supplementary capital	263,674
Own Funds	1,238,733

(b) Operational Risk Adjusted Solvency Ratio:

Own Funds	Weighted Operational Risk Exposures	Weighted Credit Risk Exposures	Weighted Market Risk Exposures	Operation Risk Adjusted Solvency Ratio (%)
(A)	(B)	(C)	(D)	(A)/[(B)+(C)+(D)]
1,238,733	321,967	6,693,904	268,083	17.01%

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7. Capital (continued)

(2) Quantitative Disclosure (continued)

<2> capital adequacy ratio of consolidated group and its significant bank subsidiaries

Not applicable

8. Credit Risk

(1) Qualitative Disclosure

Impairment of financial assets

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

The bank maintains its regulatory reserve and impairment allowance for credit and other financial assets (except from Financial derivatives), in compliance with AMCM requirement under Law No. 012/2021. When the accounting reserve does not fulfil minimum requirement of regulatory reserve, the different should be transfer from retained earnings to regulatory reserve. The regulatory reserve is not distributable.

General approach

The following elements that are integral to the measurement of the ECLs:

- (1) The probability of default ("PD") refers to the possibility that the debtor will default in a certain period of time in the future.
- (2) Loss given default ("LGD") refers to the ratio of the amount of asset losses after the debtor defaults to the exposure at default.
- (3) Exposure at default ("EAD") refers to the expected risk exposure of the debtor at a certain point in time of default in the future

In addition to considering the historical changes of its own credit portfolio losses, the Bank also considers the impact of various expected macroeconomic scenarios (such as Macau unemployment rate, retail loan default rate and housing price index, etc.) on the ECLs. The Bank based on assumptions related to the current business situation, credit portfolio and local economic environment, considering specific economic scenarios, fall into three categories:

	Weight ratio %
Favorable	20%
Baseline	50%
Unfavorable	30%

Assign weights based on the probability of each selected scenario and forecast macroeconomic indicators for each specific scenario. Build a model associated with integral elements based on the prediction results, calculate the integral elements in each scenario, and finally calculate the weighted average of ECL in multiple local scenarios.

According to whether the credit risk has increased significantly, The Bank classified the financial assets included in the scope of impairment calculation into the following three ECLs stages:

Stage 1: There has been no significant increase in credit risk since initial recognition;

In addition, There has been no significant increase in credit risk when contractual payments are less than 30 days past due.

Stage 2: Credit risk has increased significantly since initial recognition, but no default has occurred;

In addition, There has been a significant increase in credit risk when contractual payments are more than 30 days past due.

8. Credit Risk (continued)

(1) Qualitative Disclosure (continued)

General approach for the expected credit loss (ECLs) (continued)

Stage 3: Default has occurred;

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

The Bank based on the ECLs stage of each debtor, obtains the probability of default, loss given default, risk exposure at default and adjustment of forward-looking factors and other parameters, and then measures and confirms the ECLs of financial assets in the following manner:

Stage 1: For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

Stage 2 & Stage 3: For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Bank periodically reviews all judgments and assumptions that affect ECL measurement. Any scenarios not fulfilled the existing model or new exposures (such as unexpected economic diversification) will be taken into consideration. The management will adopt the overlaying method to evaluate the impact to ECL measurement, macroeconomic scenarios and probability –weighted estimation.

Credit risk management

In accordance with the guidelines of the Macau Monetary Authority Circular No. 012/2021-AMCM, the bank based on the credit risk characteristics of the loan portfolio, with respect to the classification the credit assets into five stages, which are Pass, Special Mention, Substandard, Doubtful and Loss.

- (a) Pass- In this category, the debtor is in a position able to perform the contract, and there is no objective evidence that the principal and interest cannot be repaid in full and on time, neither is there any factor that indicate the credit impairment of assets
- (b) Special Mention- In this category, the debtor is currently able to repay the principal and interest, etc., and the assets have not occurred Credit impairment, but there are some factors that may adversely affect the performance of the contract.
- (c) Substandard: In this category, the debtor repayment ability has obvious problems, and the normal revenues cannot be fully recovered the principal and interest etc., the assets have occurred Credit impairment.
In any case, assets overdue for more than 90 days must be classified as “Substandard”, “Doubtful”, and “Loss”.
- (d) Doubtful: In this category, the debtor has been unable to repay the principal and interest in full, and the assets have been significantly Credit impaired.
In any case, assets overdue for more than 180 days must be classified as “Doubtful” and “Loss”.
- (e) Loss: In this category, only a very small part of the assets, or the complete loss of all assets, even after all possible measures or procedures have been adopted legal requirements.
In any case, assets overdue for more than 365 days must be classified as “loss”.

8. Credit Risk (continued)

(1) Qualitative Disclosure (continued)

Credit risk management (continued)

For the non-performing loan category (classifies as Substandard, Doubtful and Loss), those accounts shall be classified by taking into account the period after the respective maturity. After deduction of collateral value, those non-performing loan portfolios should be taking the Special Regulatory Reserve as following account methods and should be adjusted in accordance with changes in classification.

Category of classification	Special Regulatory Reserve %
Substandard	40%
Doubtful	80%
Loss	100%

The mission of the Bank's credit management is to uphold asset quality for the Bank. The purpose of credit policy is thus to ensure that credit risk embedded at various levels and different aspects is identified and managed in compliance with regulatory requirements and the credit policy.

The Bank also sets credit principles to guide the lending officers, when considering a credit facility, be risk-conscious, understand nature of risks, obtain reasonable risk-adjusted returns, adhere strictly to policy, know your customer, sources of repayment of the borrowers and to avoid over-reliance on collateral.

The credit policy of the Bank exists to limit the concentration risk to certain industries and customers and connected parties lending. Besides, the policy also prohibits lending to undesirable facilities which the Bank has had a charge-off, restructuring, debt collection or legal action etc., and facilities for illegal purposes or violating AMCM regulations.

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8. Credit Risk (continued)

(2) Quantitative Disclosure

<1> Industry distribution of Loan and Advances

As at 31 December 2022

MOP'000

	Gross loans and advances	Expected Credit Loss			Regulatory reserves	Impaired loans and advances
		Stage 1 ECL	Stage 2 ECL	Stage 3 ECL		
Agriculture and fisheries	-	-	-	-	-	-
Mining industries	-	-	-	-	-	-
Manufacturing industries	214,382	984	-	-	1,160	-
Electricity, gas and water	12,360	28	-	-	96	-
Construction and public works	1,599,042	6,890	-	31,145	9,100	171,713
Wholesale and retail trade	921,369	3,730	-	-	5,484	-
Restaurants, hotels and similar	95,569	483	-	-	472	-
Transport, warehousing and communications	-	-	-	-	-	-
Non-monetary financial institutions	232,934	715	-	35,578	1,614	66,254
Gaming	-	-	-	-	-	-
Exhibition and conference	-	-	-	-	-	-
Education	27,752	60	-	-	218	-
Information technology	191,360	526	-	9,861	1,388	51,500
Other industries	2,963,384	16,875	1,104	37,760	11,655	75,176
Personal loans	1,916,848	8,943	151	9,398	10,074	84,201
Total	8,175,000	39,234	1,255	123,742	41,261	448,844

<2> Geographical distribution

(a) Geographical distribution of Loans and Advances

As at 31 December 2022

MOP'000

	Gross loans and advances	Expected Credit Loss			Regulatory reserves	Impaired loans and advances
		Stage 1 ECL	Stage 2 ECL	Stage 3 ECL		
Macau SAR	4,758,374	23,722	151	39,833	23,711	252,184
Hong Kong SAR	800,189	5,287	-	63	2,715	797
China, People's Republic	2,016,821	7,507	1,104	11,611	11,557	61,347
Cayman Islands	361,116	2,026	-	72,235	1,585	134,516
Virgin Islands, British	238,500	692	-	-	1,693	-
Total	8,175,000	39,234	1,255	123,742	41,261	448,844

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

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8. Credit Risk (continued)

(2) Quantitative Disclosure (continued)

<2> Geographical Distribution (continued)

(b) Geographical analysis of investments in debt securities

As at 31 December 2022
MOP'000

Region	Debt securities	loans and commitments	Financial derivatives	Expected Credit Loss			Regulatory reserves	Impaired loans and advances
				Stage 1 ECL	Stage 2 ECL	Stage 3 ECL		
Macau SAR								
Of which:								
– Banks	416,185	-	-	47	-	-	-	-
– Government/Public sectors	57,590	-	-	-	-	-	-	-
– Others	-	4,758,374	-	23,722	151	39,833	23,711	252,184
Hong Kong SAR								
Of which:								
– Banks	119,431	-	-	19	-	-	-	-
– Government/Public sectors	-	-	-	-	-	-	-	-
– Others	42,556	800,189	-	5,287	-	63	2,715	797
Mainland China								
Of which:								
– Banks	127,829	-	-	-	-	-	-	-
– Government/Public sectors	22,925	-	-	37	-	-	-	-
– Others	47,598	2,016,821	-	7,589	1,104	11,611	11,557	61,347
Cayman Islands								
Of which:								
– Banks	-	-	-	-	-	-	-	-
– Government/Public sectors	-	-	-	-	-	-	-	-
– Others	21,607	361,116	-	2,026	-	83,753	1,585	134,516
Othes								
Of which:								
– Banks	96,280	-	-	16	-	-	-	-
– Government/Public sectors	-	-	-	-	-	-	-	-
– Others	-	238,500	-	692	-	-	1,693	-
TOTAL	952,001	8,175,000	-	39,435	1,255	135,260	41,261	448,844

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8. Credit Risk

(2) Quantitative Disclosure

<3> Maturity Analysis

As at 31 December 2022

	On demand MOP\$'000	3 months or less MOP\$'000	1 year or less but over 3 months MOP\$'000	5 years or less but over 1 year MOP\$'000	Over 5 years MOP\$'000	Total MOP\$'000
<u>Financial assets</u>						
Cash and balances with banks	1,927,864	-	-	-	-	1,927,864
Deposits with AMCM	249,120	-	-	-	-	249,120
Placements with other banks	-	395,843	-	-	-	395,843
Monetary bills with AMCM	-	139,990	259,871	-	-	399,861
Loans and advances to customers	901,994	5,546,547	854,946	692,253	-	7,995,740
Financial assets included in receivables and other assets	60,055	106,282	2,745	747	-	169,829
Investment in securities	-	4,658	226,840	478,597	229,768	939,863
	<u>3,139,033</u>	<u>6,193,320</u>	<u>1,344,402</u>	<u>1,171,597</u>	<u>229,768</u>	<u>12,078,120</u>
<u>Financial liabilities</u>						
Deposits from banks	-	534,594	-	-	-	534,594
Deposits from customers	865,986	5,296,816	3,477,123	853,815	-	10,493,740
Financial liabilities included in payables and other liabilities	-	109,077	-	-	-	109,077
Bonds issued	-	-	-	-	180,000	180,000
	<u>865,986</u>	<u>5,940,487</u>	<u>3,477,123</u>	<u>853,815</u>	<u>180,000</u>	<u>11,317,411</u>
Net liquidity gap	<u>2,273,047</u>	<u>252,833</u>	<u>(2,132,721)</u>	<u>317,782</u>	<u>49,768</u>	<u>760,709</u>

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8. Credit Risk (continued)

(2) Quantitative Disclosure (continued)

<4> Ageing analysis of accounting past due exposures

Loans and advances to non-bank customers & Debt securities

	As at 31 December 2022						
	Gross loans and advances				Expected Credit Loss		
	Debt securities	Gross amount	% of total loans	value of the collateral	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL
which have been overdue for:							
- 3 months or less	11,518	799,186	9.78%		5,374	1,104	11,518
- 6 months or less but over 3 months	-	139,400	1.71%	20,909	2	151	72,356
- 1 year or less but over 6 months	-	120,239	1.47%	204,277	-	-	19,728
- over 1 year	-	189,206	2.31%	279,916	-	-	31,658
Total	11,518	1,248,030	15.27%	505,102	5,376	1,255	135,260

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8. Credit Risk (continued)

(2) Quantitative Disclosure (continued)

<5>Credit quality analysis under regulatory asset classification

The following table demonstrates, in accordance with the “Return on the Expected Credit Loss and Regulatory Reserves” issued by AMCM

	As at 31 December 2022						
				MOP'000			Regulatory Reserves
	Outstanding Balance	Real Guarantee Value	Net Exposure	Expected Credit Loss			
			Stage 1 ECL	Stage 2 ECL	Stage 3 ECL		
Credits*							
Pass	7,696,328			35,525	-	-	41,802
Special Mention	805,362			5,412	1,104	-	1,387
Substandard	139,400	20,909	134,686	2	151	72,356	-
Doubtful	120,239	204,277	-	-	-	19,728	-
Loss	189,206	279,916	7,032	-	-	31,657	-
Sub-total (Credits)	8,950,535	505,102	141,718	40,939	1,255	123,742	43,189
Other financial investments*							
Pass	2,277,351			497	-	-	-
Special Mention	19,051			-	-	-	-
Substandard	-			-	-	-	-
Doubtful	-			-	-	-	-
Loss	11,518			-	-	11,518	-
Sub-total (Other financial investments)	2,307,920			497	-	11,518	-
Total	11,258,455			41,436	1,255	135,260	43,189

*asset classification required by Notice no. 012/2021 AMCM

9. Market Risk

(1) Quantitative

Market Risk Management Objectives and Policies

Market risk is the risk of loss, in respect of the Bank's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Bank's trading and non-trading business activities.

The Bank is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk and foreign exchange risk are defined and specified under separate paragraph of this report. On the other hand, the Bank considers the market risk arising from stock price fluctuations in respect of its investment portfolios as immaterial.

Interest rate gap position report and foreign exchange net position report are the major market risk management tools used by the Bank.

Capital requirements

The following data demonstrates, Market risk capital charges determined in accordance with Notice No.011/2015-AMCM are as follows:

	As at 31 December 2022 MOP'000
Market Risk Capital Charge for	
Specific Risk of Debt Securities and Debt Derivatives	8,362
General Market Risk of Debt Securities, Debt Derivatives and Interest Rate Exposures	12,889
Equity Exposures	-
Foreign Exchange Exposures	196
Commodities Exposures	-
Market Risk Capital Charges for all categories	21,447

please refer to:

- Interest rate risk
- Foreign exchange risk
- Equity position risk
- Commodity risk

10. Interest Rate Risk

(1) Qualitative Disclosure

The Bank's interest rate risk mainly arises from the mismatches of the interest rates and tenors of the interest-generating assets and interest bearing liabilities on date of re-pricing. The Bank's interest-generating assets and interest-bearing liabilities are mainly denominated in HKD, USD and MOP. The deposit and lending rates are decided and approved by the Asset and Liability Committee regularly. Since majority of the Bank's lending activities are in MOP, the determination of the lending rate is using HKD Prime rate (as MOP is almost pegged to HKD) as the basic pricing tool while the deposit rate is priced according to the market conditions and the liquidity position of the Bank.

The measurement has no assumption regarding loan prepayments. In respect of different interest-bearing assets and liabilities, the earliest interest repricing date means:

- (1) For fixed-rate items, the maturity dates of the assets or liabilities concerned.
- (2) Floating rate items refer to the date of adjusting the interest rate according to the transaction counterparty.

The Bank manages its interest rate risk by:

- <1> regularly monitoring the macroeconomic factors that may have impact on the HKD Prime interest rates;
- <2> optimizing the differences in timing between contractual re-pricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- <3> regularly managing the interest rate gap of the interest-generating assets and interest-bearing liabilities at a comfortable level

(2) Qualitative Disclosure – Increase/Decline in Earnings or Economic Value on Rate Shocks

The following table demonstrates, in accordance the “Guideline of Management of Interest Rate Risk” issued by AMCM, the net impact to the economic value of the Bank with an assumed parallel shift of 200 basis points throughout different time spectrum multiplied by different weighting factors for different currencies.

	2022
	’000MOP
Currencies	
MOP	86,889
HKD	119,578
USD	13,376
CNY	7,896
Impact on economic value to own funds ratio	18.38%

11. Operational Risk

Operational Risk Management Objectives and Policies

The objective of Operational risk management is to eliminate as much as possible the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which range from power failures to floods or earthquakes to terrorist attacks etc.

Bank's operations are supported mainly by different automated systems and processes. All employees of the Bank have to go through various internal and on-the-job trainings before they are officially assigned to handle the systems and processes in the daily operations as poorly trained employees may inadvertently expose the Bank to operational risk. To eliminate human errors and to avoid internal and external fraud, the Bank has been emphasizing on segregation of duties and dual controls system by setting two different levels of authority on approving of one single transaction.

Through the delegation of the board of directors, the Executive Committee is formulated to oversee the overall operations and risk managements of the Bank, it has established clear guidelines and policy manuals on compliance of regulatory requirements and regulations, internal control, processes, products and risk taking.

12. Foreign Exchange Risk

(1) Risk Management Objectives and Policies

The management of foreign exchange risk is vested on the Asset and Liability Committee (ALCO) by monitoring regularly the foreign currency positions taken up by the Bank arising from foreign exchange dealings, commercial banking operations according to different holding limits as set by the Board. These foreign currency positions expose the Bank to a risk of potential losses whenever there are changes in the exchange rates. To minimize these losses, the treasurer submits on a regular basis a net position report showing the overbought and/or oversold positions of all foreign currencies to ALCO and the senior management for review and for necessary offset decision.

The Bank has no significant foreign exchange risk as the majority of the Bank's assets and liabilities are denominated in Macau patacas, Hong Kong dollars and United States dollars which are pegged to each other.

Our Bank's foreign exchange overbought/oversold positions are listed out separately in this report.

(2) Qualitative Disclosure

<1> Total Net Long and Net Short Position in Foreign Currencies

(a) Analysis for the net long/(short) position of currencies other than MOP:

	As at 31 December 2022
	<u>'000MOP Equivalent</u>
HKD	(1,978,383)
CNY	(2,448)
USD	542,173
Others	72

(b) The position of over or equal to 10% total foreign currencies:

	Spot Assets	Spot Liabilities	Net Position
	'000MOP	'000MOP	'000MOP
HKD		(1,978,383)	(1,978,383)
USD	542,173		542,173

<2> Forward sales position:

NIL

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13. Equity Position Risk

Not applicable

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14. Commodity Risk

NIL

15. Liquidity Risk

(1) Qualitative Disclosure

Liquidity risk is the risk that a Bank may not be able to meet obligations as they fall due without incurring unacceptable losses. Liquidity problems may, in extreme circumstances, lead to the collapse of the Bank. The objective of the Bank in liquidity risk management is to maintain the liquidity at a prudent level.

With the delegated authority from the Board, the Executive Committee establishes and sets up the Asset and Liability Committee (ALCO) comprising of board members and senior officers. The main function of the ALCO is to oversee for the Board in the management of the liquidity risk process of the Bank. The ALCO has established the following policies and guidelines to identify, measure and monitor the liquidity risk:

- a. Daily and long term liquidity risk strategy under normal and stress conditions
- b. System and tools for measuring liquidity which include interest rates pricing, composition of assets and liabilities, liquidity ratios, maturity mismatches reports and tighter internal limit on holding of assets and liabilities
- c. Contingency funding plan for dealing with liquidity disruptions
- d. Conduct stress tests on a regular basis to test if the Bank is able to manage the liquidity risk
- e. Disclosure of information on a regular basis to enable market participants to make an informed judgment about the soundness of the Bank's liquidity risk management framework and liquidity position

15. Liquidity Risk (continued)

(2) Quantitative Disclosure

(a) Average weekly liquidity

	For the year Ended 31 December 2022 (‘000 MOP)
Minimum requirement of cash in hand	168,249
Average weekly amount of cash in hand	433,459

The average weekly liquidity is calculated as per deposits according to AMCM's requirement (e.g. 3% on demand, 2% on less than 3 months and 1% on beyond 3 months)

(b) Average specified liquid assets

	For the year Ended 31 December 2022 (‘000 MOP)
Specified liquid assets	4,843,736
Basic liabilities	10,577,712
Ratio of solvency assets to basic liabilities	45.79%

(c) Average liquidity ratio

	For the year Ended 31 December 2022 (‘000 MOP)
One-month liquidity ratio	140.72%
Three-month liquidity ratio	71.41%

16. Other Information

Operating Lease Commitments

(a) As Lessor

The Bank leases its investment property to an independent third party under operating lease arrangements.

At the end of the reporting period, the Bank did not have any future minimum lease receivables under non-cancellable operating leases with its tenant (2021: MOP752,726 falling due within one year).

(b) As Lessee

The Bank leases certain portion of its office properties under operating lease arrangements with remaining lease terms of one to eight years (2021: one to nine years). At the end of the reporting period, the Bank had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2022	2021
Within one year	12,642,528	9,705,121
In the second to fifth years, inclusive	25,238,191	10,666,093
After five years	9,446,709	12,085,334
	<u>47,327,428</u>	<u>32,456,548</u>