The Hongkong and Shanghai Banking Corporation Limited
Macau Branch

Disclosure of Financial Information
31 December 2022

Report of the Branch management

Principal place of business and activities

The Hongkong and Shanghai Banking Corporation Limited, Macau Branch ("the Branch") is a branch of The Hongkong and Shanghai Banking Corporation Limited ("the Bank"). It is domiciled in Macau and has its registered office and principal place of business at Avenida da Praia Grande, No.639, 1st Floor, HSBC Main Branch, Macau. The Bank produces financial statements available for public use. The Branch is registered as a licensed bank under the Macau Financial System Act under the supervision of the Autoridade Monetaria de Macau ("AMCM").

Branch's activities in Macau

In 2022, despite the COVID city outbreak and other unfavorable economic factors, we continued our strategies to be the leading international trade bank leveraging the Group's global network to support customers in Macau, whilst at the same time fully support government's economic diversification blueprint by supporting Macau's key business sectors, development of Macau local bond market capability, development on the newly established Guangdong-Macau In-depth Cooperation Zone in Hengqin, and capturing increasing cross-border opportunities with Hong Kong and Mainland, especially within Greater Bay Area.

Albeit the challenging business conditions in 2022, we continued to maintain healthy balance sheet with 11% uptrend in Customer Deposits, as well as pursue opportunities arising from the development of the Greater Bay Area.

We increased our product and service capabilities, with new Corporate Real Estate Investment Property and Development Loans successfully launched. We also increased our connectivity with other local financial institutions and concluded a USD100 million debut bilateral loan with the Macau branch of a bank in Mainland China in September 2022.

We continued our digital journey and closely worked with our key commercial banking clients to streamline their settlement processes and enhanced their banking experience by promoting mobile authentication for logon and payments authorization on our award-winning digital platform, HSBCnet. We also participated in "Easy Transfer" service to support inward cross-bank e-payment transfer.

To support the development of bond market, we participated in the CNY2 billion bond issued by China's Ministry of Finance and secured to be joint lead manager and joint bookrunner, and that being one of the only two international banks in the deal.

Report of the Branch management (continued)

Branch's activities in Macau (continued)

We continued our strong Group advocates on Carbon Net Zero to support ESG projects. In 2022, HSBC Macau achieved 4 Sustainable Finance deals for USD52 million, including the first Green Guarantee and Green Trade Loan, with pipelines over USD200 million on the go.

We have increased our international connectivity and referral, with a significant increase in Life Insurance referral by 106%, International referral income by 160% and Private Banking referral Assets Under Management by USD15 million respectively in 2022.

To echo local government's urge in developing modern finance, HSBC has continued our active involvement in local engagement including the Vice-chairlady bank for Macau Associates of Banks, Vice-chairlady in the Securities and Funds Industry Association of Macao, Core Member in the Guangdong-Hong Kong-Macau Greater Bay Area Green Finance Alliance and Core representative in the Macau Talent Development Committee.

With respect of Financial Crime Compliance and Risk Management, we continued to simplify risk categories, governance forums and reporting mechanism to enable a better and faster customer experience as well as a simpler but safer lending journey.

On the people side, we continued to build our team by bringing in talents with diversified knowledge and experience. We expanded our local apprentice program and relaunched the management trainee program to support on-the-job internship experience and also to nurture future banking leaders. During June 2022 COVID outbreak, we launched our special staff support programme to ensure individual mental care to all Macau Branch colleagues. Staff Well-being surveys were launched to share anonymously concerns and challenges during the pandemic outbreak period. We have promoted our staff well-being, awareness of conduct and developed better ways of working by implementing a series of programme including bank-wide Townhall, Staff Wellbeing Taskforce, culture awareness programs and the implementation of well-being leave and flexible working policy to enable our staff to achieve a better work life balance.

Balance sheet as at 31 December 2022

(Expressed in thousands of Macau Patacas)

	31 Dec 2022 MOP'000	*31 Dec 2021* MOP'000
ASSETS		
Cash and current balances with banks	1,546,833	960,334
Balances with Autoridade Monetária de Macau ("AMCM")	435,346	462,163
Monetary bills issued by AMCM	2,283,226	3,097,796
Items in the course of collection from other banks	50,088	82,431
Loans and advances to banks	5,969,488	2,504,751
Loans and advances to customers	14,977,434	16,832,431
Equity securities	250	250
Property, plant and equipment	36,160	118,259
Other assets	891,997	967,735
Assets held for sale	74,900	-
	26,265,722	25,026,150
LIABILITIES		
Deposits by banks	7,676,258	8,451,007
Customer accounts	16,735,657	15,132,903
Items in the course of transmission to other banks	147,650	87,358
Current taxation	48,304	18,408
Deferred tax liabilities	6,335	2,252
Other liabilities	1,072,259	1,115,222
	25,686,463	24,807,150
NET ASSETS	579,259	219,000
HEAD OFFICE ACCOUNT AND RESERVES		
Financial assets at FVOCI reserves / available-for-sale financial assets reserves	(5,027)	(1,060)
Share-based payment reserve	12,480	12,545
Property revaluation reserve	81,706	84,803
Head office account	306,307	122,712
General regulatory reserve	183,793	-
Specific regulatory reserve	-	-
	579,259	219,000

Income statement
for the year ended 31 December 2022

(Expressed in thousands of Macau Patacas)

	2022 MOP'000	*2021* MOP'000
Interest income	515,191	324,706
Interest expense	(173,310)	(27,018)
Net interest income	341,881	297,688
Fee and commission income	84,858	88,422
Fee and commission expense	(6,944)	(7,281)
Net fee and commission income	77,914	81,141
Net trading income	111,962	98,902
Other operating income	8,508	1,648
Operating expenses	(269,708)	(287,914)
Change in expected credit losses/provision for bad and doubtful debts	(62,654)	(76,473)
Profit before taxation	207,903	114,992
Tax expense	(25,066)	(11,576)
Profit for the year	182,837	103,416

Statement of comprehensive income for the year ended 31 December 2022

(Expressed in thousands of Macau Patacas)

	2022 MOP'000	*2021* MOP'000
Profit for the year	182,837	103,416
Items that will not be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on property revaluation	(3,097)	9,475
Remeasurement of defined benefit plans	198	2,402
Changes in fair value of share-based payment liability to HSBC Holdings plc	(65)	(71)
Employees' share awards granted by HSBC Holdings plc	-	497
Other movements in capital contribution related to employee share awards	-	(497)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ("FVOCI")		
– fair value losses on financial assets	(3,967)	-
– fair value losses on available-for-sale financial assets	-	(1,996)
Other comprehensive (loss)/income for the year	(6,931)	9,810
Total comprehensive income for the year	175,906	113,226

Cash flow statement
for the year ended 31 December 2022

(Expressed in thousands of Macau Patacas)

	2022 MOP'000	*2021* MOP'000
Operating activities		
Profit before taxation	207,903	114,992
Adjustments for:		
Depreciation	7,634	18,188
Loss on disposal of property, plant and equipment	99	-
Change in expected credit losses/provision for bad and doubtful debts	62,654	76,473
Interest income	(515,191)	(324,706)
Interest expense	173,310	27,018
Interest received	485,405	326,564
Interest paid	(120,056)	(29,069)
Operating cash flows before changes in working capital	301,758	209,460
Change in balances with AMCM for the purpose of fulfilling minimum liquidity requirement	14,889	6,892
Change in monetary bills with original maturity of more than three months	810,199	(72,383)
Change in loans and advances to banks with original maturity of more than three months	(2,310,900)	580,391
Change in gross loans and advances to customers	2,097,599	(3,925,856)
Change in items in the course of collection from other banks	32,343	-
Change in other assets	67,706	(48,150)
Change in deposits by banks	(774,749)	3,278,510
Change in customer accounts	1,602,754	555,076
Change in other liabilities	(110,092)	128,386
Cash generated from operations	1,731,507	712,326
Taxation paid	(15,315)	(16,680)
Net cash generated from operating activities	1,716,192	695,646

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

	2022 MOP'000	*2021* MOP'000
Investing activities		
Purchases of property, plant and equipment	(4,014)	(2,111)
Net cash used in investing activities	(4,014)	(2,111)
Financing activity		
Profit remitted to head office	-	(71,982)
Net cash used in financing activity	-	(71,982)
Net increase in cash and cash equivalents	1,712,178	621,553
Cash and cash equivalents as at 1 January	4,924,175	4,302,622
Cash and cash equivalents as at 31 December	6,636,353	4,924,175

Analysis of balances of cash and cash equivalents

	2022 *MOP'000*	*2021* *MOP'000*
Cash and current balances with banks	1,546,833	960,334
Balances with AMCM	435,346	462,163
Monetary bills issued by AMCM	2,283,226	3,097,796
Loans and advances to banks	5,969,488	2,504,751
Amount shown in the balance sheet	10,234,893	7,025,044
Less:		
- Balance with AMCM for the purpose of fulfilling minimum liquidity requirement	(296,569)	(311,458)
- Monetary bills issued by AMCM with original maturity over three months	(687,875)	(1,498,074)
- Loans and advances to banks with original maturity over three months	(2,614,096)	(291,337)
Cash and cash equivalents in the cash flow statement	6,636,353	4,924,175

Effects of reclassification upon adoption of IFRS 9

(Expressed in thousands of Macau Patacas)

(a) Reconciliation between the New MFRS and the MFRS

(i) Reconciliation of balance sheet at 31 December 2021 and 1 January 2022

	31 Dec 2021 as originally presented MOP'000	*Reclassification of interest receivable* MOP'000	*Recognition of expected credit loss* MOP'000	*Establishment of regulatory reserve* MOP'000	*1 Jan 2022* MOP'000
ASSETS					
Cash and current balances with banks	960,334	-	-	-	960,334
Balances with AMCM	462,163	-	-	-	462,163
Monetary bills issued by AMCM	3,097,796	-	-	-	3,097,796
Items in the course of collection from other banks	82,431	-	-	-	82,431
Loans and advances to banks	2,504,751	340	-	-	2,505,091
Loans and advances to customers	16,832,431	7,692	209,778	-	17,049,901
Equity securities	250	-	-	-	250
Property, plant and equipment	118,259	-	-	-	118,259
Other assets	967,735	(8,032)	-	-	959,703
Total Assets	25,026,150	-	209,778	-	25,235,928

Effects of reclassification upon adoption of IFRS 9 (continued)

(Expressed in thousands of Macau Patacas)

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

(i) Reconciliation of balance sheet at 31 December 2021 and 1 January 2022 (Continued)

	31 Dec 2021 as originally presented MOP'000	*Reclassification of interest receivable* MOP'000	*Recognition of expected credit loss* MOP'000	*Establishment of regulatory reserve* MOP'000	*1 Jan 2022* MOP'000
LIABILITIES					
Deposits from banks	8,451,007	-	-	-	8,451,007
Customer accounts	15,132,903	-	-	-	15,132,903
Items in the course of transmission to other banks	87,358	-	-	-	87,358
Current taxation	18,408	-	25,128	-	43,536
Deferred tax liabilities	2,252	-	-	-	2,252
Other liabilities	1,115,222	-	-	-	1,115,222
Total Liabilities	24,807,150	-	25,128	-	24,832,278
NET ASSETS	219,000	-	184,650	-	403,650
HEAD OFFICE ACCOUNT AND RESERVES					
Financial assets at FVOCI reserves / available-for-sale financial assets reserves	(1,060)	-	-	-	(1,060)
Share-based payment reserve	12,545	-	-	-	12,545
Property revaluation reserve	84,803	-	-	-	84,803
General regulatory reserve	-	-	-	209,369	209,369
Specific regulatory reserve	-	-	-	233	233
Head office account	122,712	-	184,650	(209,602)	97,760
	219,000	-	184,650	-	403,650

Effects of reclassification upon adoption of IFRS 9

(Expressed in thousands of Macau Patacas)

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

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

	Head office account MOP'000	*Financial assets at FVOCI reserves / available-for-sale financial assets reserves* MOP'000	*Share-based payment reserve* MOP'000	*Property revaluation reserve* MOP'000	*General regulatory reserve* MOP'000	*Specific regulatory reserve* MOP'000	*Total* MOP'000
Head Office account and reserves at 31 December 2021 under MFRS	122,712	(1,060)	12,545	84,803	-	-	219,000
Recognition of expected credit loss	209,778	-	-	-	-	-	209,778
Recognition of current tax liabilities	(25,128)	-	-	-	-	-	(25,128)
Establishment of regulatory reserve	(209,602)	-	-	-	209,369	233	-
Head Office account and reserves at 1 January 2022 under New MFRS with establishment of regulatory reserve	97,760	(1,060)	12,545	84,803	209,369	233	403,650

Effects of reclassification upon adoption of IFRS 9 (continued)

(Expressed in thousands of Macau Patacas)

(b) IFRS 9: Classification and measurement

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

	Original classification under previous accounting policies	*New classification under IFRS 9*	*Original carrying amount under previous accounting policies*	*New carrying amount under IFRS 9*
			MOP'000	MOP'000
Financial assets				
Cash and current balances with banks	Loans and receivables	Amortised cost	960,334	960,334
Balances with AMCM	Loans and receivables	Amortised cost	462,163	462,163
Monetary bills issued by AMCM	Available-for-sale	FVOCI	3,097,796	3,097,796
Loans and advances to banks	Loans and receivables	Amortised cost	2,504,751	2,504,751
Loans and advances to customers	Loans and receivables	Amortised cost	16,832,431	17,050,241
Equity securities	Available-for-sale	FVOCI	250	250
			23,857,725	24,075,535

Off-balance-sheet exposures as at 31 December 2022

(Expressed in thousands of Macau Patacas)

(a) ***Contingent liabilities and commitments***

	Contractual amounts At 31 Dec 2022 MOP'000	*Contractual amounts At 31 Dec 2021* MOP'000
Financial guarantees	10,856	10,954
Performance guarantees	2,612,899	2,517,726
Documentary credits and trade related contingencies	1,697,850	1,916,097
Other commitments	11,843,930	9,230,957

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

Off-balance-sheet exposures as at 31 December 2022 (continued)

(Expressed in thousands of Macau Patacas)

(b) ***Derivatives***

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

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

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Exchange rate contracts	3,676,041	3,165,192

Derivatives arise from forward transactions undertaken in the foreign exchange market. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The fair values and credit risk weighted amounts of the aforesaid off-balance sheet exposures are as follows:

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Fair value		
- Exchange rate contracts		
Assets	15,801	29,736
Liabilities	58,327	14,717

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Credit risk weighted amounts		
- Exchange rate contracts	21,665	21,479

Accounting policies

(a) *Statement of compliance*

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

These financial statements have been prepared in accordance with the requirements as set out in Decree-Law No. 32/93/M and the Financial Reporting Standards issued by the Directive of Secretaria para a Economia e Finanças No. 44/2020 on 17 March 2020 ("New MFRS").

(b) *Basis of preparation of the financial statements*

The Branch is part of The Hongkong and Shanghai Banking Corporation Limited and accordingly it is not a separate legal entity. These financial statements have been prepared from the books and records maintained by the Branch in Macau, which contain evidence of all transactions entered into by the Branch locally but do not necessarily reflect all transactions that may be applicable to the Branch.

The financial statements are presented in thousands of Macau Patacas ("MOP"). The measurement basis used in the preparation of the financial statements is historical cost except for leasehold lands and properties, monetary bills issued by AMCM and derivative financial instruments, which are carried at fair value.

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

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

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

Accounting policies (continued)

(b) Basis of preparation of the financial statements (Continued)

(i) New and amended standards and interpretations adopted

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

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

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

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

<u>IFRS 9 – Financial instruments</u>

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

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

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

Accounting policies (continued)

(b) Basis of preparation of the financial statements (Continued)

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

IFRS 9 – Financial instruments (Continued)

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

IFRS 13 – Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

(ii) Establishment of regulatory reserve

The regulatory reserve is maintained to satisfy the provisions of the AMCM for prudential supervision purposes by appropriated amounts in respect of losses which the Branch will or may incur on credit exposures in addition to expected credit loss recognised in accordance with AMCM Guideline Notice 012/2021-AMCM. Movements in the regulatory reserve are appropriated directly through retained profits. As at 31 December 2022, the balance of general regulatory reserves is MOP 183,793,000 and nil for specific regulatory reserves.

Set out in the section 'Effects of reclassification upon adoption of IFRS 9' are disclosures relating to the impact, net of tax, of transition to IFRS 9 and establishment of regulatory reserve on the balance sheet of the Branch.

Accounting policies (continued)

(c) Financial instruments

(i) Classification of financial instruments

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

– Amortised cost
– Fair value through other comprehensive income (“FVOCI”); or
– Fair value through profit or loss (“FVPL”)

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

(ii) Recognition and derecognition of financial instruments

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

(iii) Valuation of financial instruments

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

(iv) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The Branch accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Accounting policies (continued)

(c) Financial instruments (continued)

(v) Financial assets measured at fair value through other comprehensive income ("FVOCI")

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

(vi) Equity securities measured at fair value with fair value movements presented in other comprehensive income

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where the Branch holds the investments other than to generate a capital return.

(vii) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ("ECL") are recognised for loans and advances to banks and customers, other financial assets held at amortised cost and debt instruments measured at FVOCI. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'.

Write-off

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

Credit-impaired (stage 3)

The Branch determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired. Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (Continued)

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL.

The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, and these criteria will differ for different types of lending, particularly between retail and wholesale.

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

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default (“PD”), which encompasses a wide range of information including the obligor’s customer risk rating (“CRR”), macroeconomic condition forecasts and credit transition probabilities.

For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15 bps
2.1-3.3	30 bps

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (Continued)

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

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

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

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

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due.

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

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

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (Continued)

Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

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

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

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

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

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (Continued)

Measurement of ECL (Continued)

The Branch makes use of the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows:

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

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

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ("DCF") methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (Continued)

Measurement of ECL (Continued)

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on the estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

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

Period over which ECL is measured

ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Branch is exposed to credit risk.

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

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

In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (Continued)

Forward-looking economic inputs

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

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

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

Accounting policies (continued)

(d) Property, plant and equipment

(i) Land and buildings

Land and buildings held for own use are carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluations are performed by professional qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surpluses arising on revaluation are credited firstly to the income statement, to the extent of any deficits arising on revaluation previously charged to the income statement in respect of the same land and buildings, and are thereafter taken to the 'Property revaluation reserve'. Deficits arising on revaluation are first set off against any previous revaluation surpluses included in the 'Property revaluation reserve' in respect of the same land and buildings, and are thereafter recognised in the income statement.

Leasehold land and buildings are depreciated on a straight-line basis over the shorter of the unexpired terms of the leases or the remaining useful lives.

(ii) Other equipment

Equipment, fixtures and fittings are stated at cost less any impairment losses. Depreciation is calculated on a straight-line basis to write-off the assets over their useful lives, which are generally between 4 and 10 years.

Equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss on the date of retirement or disposal.

(e) Impairment of non-financial assets

Other non-financial assets such as property, plant and equipment are tested for impairment at the individual asset level when there is indication of impairment at that level. Impairment testing compares the carrying amount of the non-financial asset with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

Accounting policies (continued)

(f) ***Cash and cash equivalents***

For the purposes of the cash flow statement, cash and cash equivalents include high liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments comprise cash and current balances with banks, balances with AMCM, monetary bills issued by AMCM and loans and advances to banks with less than three months' maturity from the date of acquisition.

(g) ***Operating leases***

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

(h) ***Employee compensation and benefits***

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Branch. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Post-employment benefit plans

The Branch operates a defined benefit and a defined contribution scheme.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses. Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

Accounting policies (continued)

(i) ***Tax***

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in OCI or directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(j) ***Provisions and contingent liabilities***

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Accounting policies (continued)

(k) Non-current assets held for sale

The Branch classifies non-current assets as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, and the sale must be highly probable. For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5. If the carrying amount of the non-current asset is greater than the fair value less costs to sell, an impairment loss for any initial or subsequent write down of the asset to fair value less costs to sell is recognised. Any such impairment loss is first allocated against the non-current assets that are in scope of IFRS 5 for measurement.

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Branch and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income and expense

Interest income and expense for all financial instruments are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. Interest on credit impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Non-interest income and expense

The Branch generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Branch delivers a specific transaction at a point in time such as import/export services.

The Branch recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Accounting policies (continued)

(m) Foreign currencies

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

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in OCI or in the income statement depending on where the gain or loss on the underlying item is recognised.

(n) Related parties

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

(a) has control or joint control over the Branch;
(b) has significant influence over the Branch; or
(c) is a member of the key management personnel of the Branch or the Branch's parent.

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

(a) The entity and the Branch are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(c) Both entities 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 Branch or an entity related to the Branch.
(f) The entity is controlled or jointly controlled by a person identified in (i).
(g) A person identified in (i)(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).

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

Accounting policies (continued)

(o) Accounting policies applicable prior to 1 January 2022

Financial instruments

(i) Categorisation

Available-for-sale financial assets

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

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in fair value are recognised directly in the available-for-sale financial assets reserve except for foreign exchange gains and losses on monetary items such as debt securities and impairment losses which are recognised in the profit and loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are carried at cost less impairment losses, if any (see 'Impairment of assets' of accounting policies (o)).

When available-for-sale financial assets are sold, the difference between the net sale proceeds and the carrying value, together with the accumulated fair value adjustments in the available-for-sale financial assets reserve are treated as gains or losses on disposal.

Other financial liabilities

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

Accounting policies (continued)

(o) Accounting policies applicable prior to 1 January 2022 (Continued)

Financial instruments (Continued)

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices, where available, at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current ask prices.

Where quoted market prices are not available and discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iii) Derecognition

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

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

Accounting policies (continued)

(o) Accounting policies applicable prior to 1 January 2022 (Continued)

Impairment of assets

The carrying amount of the Branch's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the profit and loss. The carrying value of loans and receivables is adjusted through use of an allowance account rather than a direct write off.

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the profit and loss. The amount of the cumulative loss that is recognised in the profit and loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit and loss.

Impairment losses recognised in the profit and loss in respect of available-for-sale equity securities are not reversed through the profit and loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the profit and loss.

Significant related party transactions

(Expressed in thousands of Macau Patacas)

The Branch entered into the following significant related party transactions.

(a) Transactions with group companies

During the year, the Branch entered into transactions with related parties in the ordinary course of its banking business including lending and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction.

The amount of related-party transactions during the year and outstanding balances at 31 December 2022 and 31 December 2021 are set out below:

	Associates, other branches, subsidiaries and fellow subsidiaries		*The Hongkong and Shanghai Banking Corporation, Hong Kong Branch*	
	2022	*2021*	*2022*	*2021*
	MOP'000	MOP'000	MOP'000	MOP'000
Interest income	951	112	33,799	7,657
Interest expense	(326)	(168)	(100,047)	(17,733)
Fee and commission income	3,020	1,617	850	758
Fee and commission expense	(1,011)	(1,194)	(518)	(535)
Other operating income	8,440	1,606	-	-
Operating expenses	(51,321)	(48,412)	(62,493)	(68,655)
For the year ended 31 December	(40,247)	(46,439)	(128,409)	(78,508)
Cash and current balances with banks	812,847	311,377	298,589	35,295
Loans and advances to banks	1,150,434	1,078,665	3,729,593	1,426,088
Other assets	3,989	1,330	18,333	26,840
As at 31 December	1,967,270	1,391,372	4,046,515	1,488,223
Deposits by banks	4,353	46,730	7,352,789	8,396,844
Customer accounts	39,671	25,518	-	-
Other liabilities	4,208	3,168	83,733	9,319
As at 31 December	48,232	75,416	7,436,522	8,406,163

No ECL allowances/provision for bad and doubtful debts were made in respect of the above exposures with related parties.

Significant related party transactions (continued)

(Expressed in thousands of Macau Patacas)

(a) Transactions with group companies (continued)

The Branch's immediate parent is The Hongkong and Shanghai Banking Corporation Limited, which is incorporated in Hong Kong and the Branch's ultimate parent is HSBC Holdings plc, which is incorporated in the United Kingdom. Both the immediate and ultimate parent companies produce consolidated financial statements for public use.

(b) Key management personnel

The remuneration of key management personnel, which is included in the staff costs, is as follows:

	Year ended 31 Dec 2022 MOP'000	*Year ended 31 Dec 2021* MOP'000
Executive officers	4,028	3,055

Credit risk management

(Expressed in thousands of Macau Patacas)

The Branch's credit risk is primarily attributable to loans and advances to customers. The Branch manages this risk as follows:

In respect of loans and advances to customers, individual credit evaluations are performed on all customers requiring credit. Normally, the Branch obtains collateral from customers.

At the balance sheet date, the Branch's greatest concentration of credit risk on one market sector was 40.8% of total loans and advances to customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any ECL allowance/provision for bad and doubtful debts and adjustment of mark to market value if applicable.

(a) Geographical distribution of credit risk exposures

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

Exposures to individual countries or jurisdiction, groups of countries or regions within countries amounting to 10% or more of the relevant major types of credit exposures at balance sheet date are shown as follows:

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(a) ***Geographical distribution of credit risk exposures (continued)***

As at 31 December 2022

	Banks	*Governments*	*Public sector entities*	*Others*	*Total exposures*	*Stage 1 ECL*	*Stage 2 ECL*	*Stage 3 ECL*	*Total ECL*
	MOP '000	MOP '000	MOP '000	MOP '000	MOP '000	MOP '000	MOP '000	MOP '000	MOP '000
Loans and advances to customers									
− Macau	-	-	-	13,678,187	13,678,187	3,369	4,564	319,514	327,447
− Hong Kong	-	-	-	949,260	949,260	419	261	-	680
− Others	-	-	-	678,662	678,662	509	39	-	548
	-	-	-	15,306,109	15,306,109	4,297	4,864	319,514	328,675
Undrawn commitments									
− Macau	-	-	-	11,784,561	11,784,561	105	44	-	149
− Hong Kong	-	-	-	59,369	59,369	1	-	-	1
− Others	-	-	-	-	-	-	-	-	-
	-	-	-	11,843,930	11,843,930	106	44	-	150
Loans and advances to banks									
− Macau	1,330,826	-	-	-	1,330,826	407	-	-	407
− Hong Kong	3,729,593	-	-	-	3,729,593	27	-	-	27
− Others	909,510	-	-	-	909,510	7	-	-	7
	5,969,929	-	-	-	5,969,929	441	-	-	441

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(a) *Geographical distribution of credit risk exposures (continued)*

As at 31 December 2021

	Banks	*Governments*	*Public sector entities*	*Others*	*Total exposures*	*General provision*	*Specific provision*	*Total provision*
	MOP ’000	MOP ’000	MOP ’000	MOP ’000	MOP ’000	MOP ’000	MOP ’000	MOP ’000
Loans and advances to customers								
– Macau	-	-	-	14,781,336	14,781,336	183,201	327,271	510,472
– Hong Kong	-	-	-	1,706,246	1,706,246	22,186	-	22,186
– Others	-	-	-	890,267	890,267	12,760	-	12,760
	-	-	-	17,377,849	17,377,849	218,147	327,271	545,418
Undrawn commitments								
– Macau	-	-	-	9,096,317	9,096,317	-	-	-
– Hong Kong	-	-	-	73,477	73,477	-	-	-
– Others	-	-	-	61,163	61,163	-	-	-
	-	-	-	9,230,957	9,230,957	-	-	-
Loans and advances to banks								
– Macau	240,957	-	-	-	240,957	-	-	-
– Hong Kong	1,426,089	-	-	-	1,426,089	-	-	-
– Others	837,705	-	-	-	837,705	-	-	-
	2,504,751	-	-	-	2,504,751	-	-	-

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(a) Geographical distribution of credit risk exposures (continued)

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

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Macau		
Gross loans and advances to customers	13,678,187	14,781,336
Impaired loans	855,349	600,575
Expected credit loss / specific provision	306,257	327,271

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(b) ***Loans and advances to customers analysed by industry sector***

	At 31 Dec 2022				
	Gross loans and advances to customers	*Impaired*	*ECL Stage 1*	*ECL Stage 2*	*ECL Stage 3*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Agriculture and fisheries	-	-	-	-	-
Mining industries	-	-	-	-	-
Manufacturing industries	579,445	-	52	13	-
Electricity, gas and water	-	-	-	-	-
Construction and public works	846,536	387,882	187	6	118,780
Wholesale and retail trade	5,114,130	196,877	850	814	184,387
Restaurants, hotels and similar	10,468	-	10	3	-
Transport, warehousing and communications	-	-	-	-	-
Non-monetary financial institutions	-	-	-	-	-
Gaming	-	-	-	-	-
Exhibition and conference	-	-	-	-	-
Education	-	-	-	-	-
Information technology	29	-	-	-	-
Other industries	2,511,107	140,880	1,641	367	-
Personal loans	6,244,394	130,135	1,557	3,661	16,347
	15,306,109	855,774	4,297	4,864	319,514

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(b) Loans and advances to customers analysed by industry sector (continued)

	At 31 Dec 2021			
	Gross loans and advances to customers	*Impaired*	*General provision*	*Specific provision*
	MOP'000	MOP'000	MOP'000	MOP'000
Agriculture and fisheries	-	-		-
Mining industries	-	-		-
Manufacturing industries	501,961	-		-
Electricity, gas and water	-	-		-
Construction and public works	795,488	196,024		712
Wholesale and retail trade	6,568,241	336,528		324,376
Restaurants, hotels and similar	11,170	-		-
Transport, warehousing and communications	30,000	-		-
Non-monetary financial institutions	-	-		-
Gaming	-	-		-
Exhibition and conference	-	-		-
Education	-	-		-
Information technology	28,051	-		-
Other industries	2,627,012	-		-
Personal loans	6,815,926	68,023		2,183
	17,377,849	600,575	218,147	327,271

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(c) *Analysis on assets and liabilities by remaining maturity*

	At 31 December 2022						
	Repayable on demand	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 year and 5 years*	*Due after 5 years*	*No contractual maturity*	*Total*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Assets							
Cash and current balances with banks	1,546,833	-	-	-	-	-	1,546,833
Balances with AMCM	-	435,346	-	-	-	-	435,346
Monetary bills issued by AMCM	-	1,794,302	488,924	-	-	-	2,283,226
Items in the course of collection from other banks	50,088	-	-	-	-	-	50,088
Loans and advances to banks	-	4,545,684	1,423,804	-	-	-	5,969,488
Loans and advances to customers	434,730	4,269,104	2,402,458	3,038,844	4,832,298	-	14,977,434
Equity securities	-	-	-	-	-	250	250
Property, plant and equipment	-	-	-	-	-	36,160	36,160
Other assets	134,651	706,948	50,398	-	-	-	891,997
Asset Held for sale	-	-	74,900	-	-	-	74,900
Total assets	2,166,302	11,751,384	4,440,484	3,038,844	4,832,298	36,410	26,265,722
Liabilities							
Deposits by banks	260,258	824,000	-	6,592,000	-	-	7,676,258
Customer accounts	11,222,118	2,617,281	2,726,215	170,043	-	-	16,735,657
Items in the course of transmission to other banks	147,650	-	-	-	-	-	147,650
Current taxation	-	-	48,304	-	-	-	48,304
Deferred tax liabilities	-	-	-	6,335	-	-	6,335
Other liabilities	133,291	821,542	84,911	28,316	4,049	150	1,072,259
Total liabilities	11,763,317	4,262,823	2,859,430	6,796,694	4,049	150	25,686,463
Net liquidity gap	(9,597,015)	7,488,561	1,581,054	(3,757,850)	4,828,249	36,260	579,259

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(c) Analysis on assets and liabilities by remaining maturity (continued)

	At 31 December 2021						
	Repayable on demand MOP'000	*Due within 3 months MOP'000*	*Due between 3 and 12 months MOP'000*	*Due between 1 year and 5 years MOP'000*	*Due after 5 years MOP'000*	*No contractual maturity MOP'000*	*Total MOP'000*
Assets							
Cash and current balances with banks	960,334	-	-	-	-	-	960,334
Balances with AMCM	-	462,163	-	-	-	-	462,163
Monetary bills issued by AMCM	-	2,399,340	698,456	-	-	-	3,097,796
Items in the course of collection from other banks	82,431	-	-	-	-	-	82,431
Loans and advances to banks	-	2,213,414	291,337	-	-	-	2,504,751
Loans and advances to customers	30,454	4,924,244	2,769,443	3,883,160	5,225,130	-	16,832,431
Equity securities	-	-	-	-	-	250	250
Property, plant and equipment	-	-	-	-	-	118,259	118,259
Other assets	455,589	344,608	167,538	-	-	-	967,735
Total assets	1,528,808	10,343,769	3,926,774	3,883,160	5,225,130	118,509	25,026,150
Liabilities							
Deposits by banks	191,256	431,751	1,287,500	6,540,500	-	-	8,451,007
Customer accounts	13,343,955	1,231,035	557,694	219	-	-	15,132,903
Items in the course of transmission to other banks	87,358	-	-	-	-	-	87,358
Current taxation	-	-	18,408	-	-	-	18,408
Deferred tax liabilities	-	-	-	2,252	-	-	2,252
Other liabilities	782,313	155,091	169,620	2,684	5,444	70	1,115,222
Total liabilities	14,404,882	1,817,877	2,033,222	6,545,655	5,444	70	24,807,150
Net liquidity gap	(12,876,074)	8,525,892	1,893,552	(2,662,495)	5,219,686	118,439	219,000

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(d) Ageing analysis on accounting past due exposures

The ageing analysis of loans and advances to customers that are past due is as follows:

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Gross loans and advances to customers that are past due		
– more than 3 months but less than 6 months	116,001	133,534
– more than 6 months but less than 1 year	421,273	203,371
– more than 1 year	235,568	263,670
	772,842	600,575

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Value of collateral on past due loans and advances to customers		
– more than 3 months but less than 6 months	124,202	36,643
– more than 6 months but less than 1 year	271,071	212,841
– more than 1 year	82,914	31,570
	478,187	281,054

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Amount of expected credit loss / specific provision made on past due loans and advance to customers		
– more than 3 months but less than 6 months	43,301	93,716
– more than 6 months but less than 1 year	80,431	708
– more than 1 year	193,980	232,847
	317,712	327,271

As at 31 December 2022, there were no other assets that have been past due for bank and non-bank customers.

As at 31 December 2022, all the past due loans and advances to customers more than 3 months were considered to be impaired.

As at 31 December 2022, there was no management overlay of ECL on loans and advances to customers.

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(e) ***Credit quality analysis under regulatory asset classification***

	At 31 December 2022					
	Gross exposure MOP '000	*Value of collateral* MOP '000	*Stage 1 ECL* MOP '000	*Stage 2 ECL* MOP '000	*Stage 3 ECL* MOP '000	*Net exposure* MOP '000
Deposits with AMCM						
Pass	435,346	-	-	-	-	435,346
Loans and advances to banks						
Pass	5,969,929	-	441	-	-	5,969,488
Loans and advances to customers						
Pass	13,642,487	17,828,074	3,922	3,327	-	-
Special mention	751,799	1,224,217	372	1,078	-	-
Substandard	99,434	240,517	-	354	1,563	-
Doubtful	558,709	520,729	3	105	123,552	-
Loss	253,680	103,124	-	-	194,399	-
	15,306,109	19,916,661	4,297	4,864	319,514	-

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(e) Credit quality analysis under regulatory asset classification (continued)

	At 31 December 2021				
	Gross exposure MOP '000	*Value of collateral* MOP '000	*General provision* MOP '000	*Specific provision* MOP '000	*Net exposure* MOP '000
Deposits with AMCM					
Group I	462,163	-	-	-	462,163
Loans and advances to banks					
Group I	2,504,751	-	-	-	2,504,751
Loans and advances to customers					
Group I (Performing or past due less than 3 months)	16,777,274	19,052,035	218,147	-	-
Group II (Past due between 3 and 12 months)	336,905	249,485	-	94,424	-
Group III (Past due between 12 and 18 months)	89,816	13,627	-	74,542	1,647
Group IV (Past due over 18 months)	173,854	17,943	-	158,305	-
	17,377,849	19,333,090	218,147	327,271	1,647

Market risk management

Market risk

Market risk is the risk that movements in foreign exchange rates, interest rates, credit spreads, or equity and commodity prices will result in profits or losses to the Branch. Market risk arises on financial instruments which are measured at fair value and those which are measured at amortised cost. The objective of market risk management is to control market risk exposures to achieve an optimal return while maintaining risk at acceptable levels.

The Branch monitors market risk separately for trading portfolios and non-trading portfolios. Trading portfolios include positions arising from market-making in exchange rate, interest rate, credit and equity derivative instruments, as well as in debt and equity securities. Trading risks arise either from customer-related business or from proprietary position-taking.

Interest rate risk management

Interest rate risk

The Branch's interest rate risk arises primarily from investments in financial instruments, and loans and deposits.

Interest rate risk arises principally from mismatches between the future yield on assets and our funding cost as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on optionality in certain product areas, for example mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example current accounts.

As part of the Bank's Asset, Liability and Capital Management ("ALCM") structure, we have established the Asset and Liability Management Committee ("ALCO") and Markets Treasury ("MKTY") at the Branch level. In order to manage this risk optimally, all interest rate risk is transferred to MKTY.

The transfer of interest rate risk to books managed by MKTY is usually achieved by a series of internal deals between the business units and these books. When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the true underlying interest rate risk. Local ALCOs regularly monitor all such behavioural assumptions and interest rate risk positions, to ensure they comply with interest rate risk limits established by senior management.

As noted above, in certain cases, the non-linear characteristics of products cannot be adequately captured by the risk transfer process. For example, both the flow from customer deposit accounts to alternative investment products and the precise prepayment speeds of mortgages will vary at different interest rate levels. In such circumstances, simulation modelling is used to identify the impact of varying scenarios on valuations and net interest income.

Once interest rate risk has been consolidated in MKTY, the net exposure is typically managed through the use of pre-designated market instruments within agreed limits.

Operational risk management

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organisation and covers a wide spectrum of issues.

The Branch manages this risk through a controls-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the Branch stays in line with industry best practice and takes account of lessons learnt from publicised operational failures within the financial services industry.

The Branch has codified its operational risk management process by issuing a high level standard, supplemented by more detailed formal guidance. This explains how the Branch manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The standard covers the following:

- operational risk management responsibility is assigned to senior management within the business operation;

- information systems are used to record the identification and assessment of operational risks and to generate appropriate, regular management reporting;

- assessments are undertaken of the operational risks facing each business and the risks inherent in its processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;

- operation loss data is collected and reported to senior management; and

- risk mitigation, including insurance, is considered where this is cost-effective.

Foreign exchange risk management

Foreign currency risk

The Branch is exposed to currency risks primarily arising from financial instruments that are denominated in United States dollars ("USD") and other major currencies. As the Patacas is pegged to the Hong Kong dollar ("HKD") which is in turn pegged to USD, the Branch considers the risk of movements in exchange rates between the HKD and the USD, and to Patacas to be insignificant. In respect of financial instruments denominated in other currencies, the Branch ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

As most of the Branch's financial instruments at 31 December 2022 and 2021 were denominated in either HKD or USD, management does not consider there to be any significant currency risk associated with them.

Analysis on total net position in currencies other than MOP:

	At 31 December 2022			
In thousand of MOP equivalent	*United States Dollars*	*Hong Kong Dollars*	*Other foreign currencies*	*Total*
Spot assets	5,052,505	13,858,807	2,126,329	21,037,641
Spot liabilities	(6,994,330)	(13,008,483)	(1,216,994)	(21,219,807)
Forward purchase	2,537,669	35,061	1,103,311	3,676,041
Forward sales	(621,829)	(1,082,589)	(2,011,637)	(3,716,055)
Net long/(short) non-structural position	(25,985)	(197,204)	1,009	(222,180)

	At 31 December 2021			
In thousand of MOP equivalent	*United States Dollars*	*Hong Kong Dollars*	*Other foreign currencies*	*Total*
Spot assets	5,262,629	12,175,082	1,625,439	19,063,150
Spot liabilities	(6,494,277)	(12,146,171)	(904,076)	(19,544,524)
Forward purchase	1,889,264	290,640	985,288	3,165,192
Forward sales	(624,786)	(673,621)	(1,706,705)	(3,005,112)
Net long/(short) non-structural position	32,830	(354,070)	(54)	(321,294)

Liquidity risk management

The Branch's policy is to daily monitor its liquidity requirements and its compliance with lending covenants, including the terms of borrowings from other group entities, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities or committed lines of funding (from major financial institutions or other group companies) to satisfy its contractual and reasonably foreseeable obligations as they fall due.

As part of the Bank's Asset, Liability and Capital Management ("ALCM") structure, we have established the Asset and Liability Management Committee ("ALCO") at the Branch level. The terms of reference of ALCO includes the monitoring and control of liquidity and funding.

The following table summarizes the key quantitative indicators for liquidity risk:

	Year ended 31 Dec 2022	*Year ended 31 Dec 2021*
	MOP'000	MOP'000
(a) The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	431,509	453,433
(b) The arithmetic mean of the average weekly amount of cash in hand	723,464	824,485
(c) The arithmetic mean of the specified liquid assets at the end of each month	10,482,547	9,783,295
(d) The average ratio of specified liquid assets to total basic liabilities at the end of the month	66.9%	63.2%
(e) The arithmetic mean of its one-month liquidity ratio in the last week of each month	770.8%	970.2%
(f) The arithmetic mean of its three-month liquidity ratio in the last week of each month	396.2%	433.4%

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

Other information

(Expressed in thousands of Macau Patacas)

(a) ***Capital commitments***

There were no capital commitments outstanding not provided for in the financial statements as at 31 December 2022 and 31 December 2021.

(b) ***Operating lease commitments***

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 Dec 2022 MOP'000	*At 31 Dec 2021* MOP'000
Within 1 year	5,086	19,453
After 1 year but within 5 years	421	433
	5,507	19,886

(c) ***Assets pledged as security***

There were no assets that pledged as security for the liabilities of the Branch as at 31 December 2022 and 31 December 2021.

(d) ***Outstanding litigations***

There were no outstanding litigations which may have a significant impact on the financial position of the Branch as at 31 December 2022 and 31 December 2021.

Other information in relation to positions of Head Office, The Hongkong and Shanghai Banking Corporation Limited

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

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

(a) Consolidated capital adequacy ratio

	At 31 Dec 2022	*At 31 Dec 2021*
	%	%
Capital adequacy ratio		
Tier 1 capital ratio	16.9	16.8
Total capital ratio	18.8	18.7

The capital ratios were contained in the 'Capital Adequacy Ratio' return submitted to the Hong Kong Monetary Authority ("HKMA") by The Hongkong and Shanghai Banking Corporation Limited on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

Other information in relation to positions of Head Office, The Hongkong and Shanghai Banking Corporation Limited (continued)

(Expressed in Hong Kong dollars)

(b) Capital and reserves

	At 31 Dec 2022 HKD million	*At 31 Dec 2021* HKD million
Share capital	180,181	172,335
Other equity instruments	52,386	44,615
Other reserves	109,235	151,804
Retained earnings	533,518	488,055
Total shareholders' equity	875,320	856,809
Non-controlling interests	65,943	66,702
Total equity	941,263	923,511

(c) Consolidated assets, liabilities and profits position

	At 31 Dec 2022 HKD million	*At 31 Dec 2021* HKD million
Total assets	10,324,152	9,903,393
Total liabilities	9,382,889	8,979,882
Loans and advances to customers	3,705,149	3,840,939
Deposits by banks	198,908	280,310
Customer accounts	6,113,709	6,177,182

	Year ended 31 Dec 2022 HKD million	*Year ended 31 Dec 2021* HKD million
Profit before taxation	97,611	86,563

Other information in relation to positions of Head Office, The Hongkong and Shanghai Banking Corporation Limited (continued)

(d) Shareholders with qualifying holdings

The Branch is one the branches of The Hongkong and Shanghai Banking Corporation Limited ("the Bank"). The ultimate holding company of the Bank is HSBC Holdings plc, which is incorporated in the United Kingdom. There are no shareholders with major holdings in HSBC Holdings plc ordinary shares.

(e) Board of Directors

The Board of Directors of the Bank at 31 December 2022 comprises:

Peter Tung Shun WONG, GBS, JP *(Non-executive Chairman)*
David Gordon ELDON, GBS, CBE, JP *(Non-executive Deputy Chairman)*
David Yi Chien LIAO *(Co-Chief Executive Officer)*
Surendranath Ravi ROSHA *(Co-Chief Executive Officer)*
Sonia Chi Man CHENG *(Independent non-executive Director)*
Yiu Kwan CHOI *(Independent non-executive Director)*
Andrea Lisa DELLA MATTEA *(Independent non-executive Director)*
Rajnish KUMAR *(Independent non-executive Director)*
Beau Khoon Chen KUOK *(Independent non-executive Director)*
Irene Yun-lien LEE *(Independent non-executive Director)*
Victor Tzar Kuoi LI *(Non-executive Director)*
Annabelle Yu LONG *(Independent non-executive Director)*
Kevin Anthony WESTLEY, BBS *(Independent non-executive Director)*

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

TO THE MANAGEMENT OF THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED, MACAU BRANCH

The accompanying summary financial statements of The Hongkong and Shanghai Banking Corporation Limited, Macau Branch (the "Branch") set out on pages 3 to 7, which comprise the summary balance sheet as at 31 December 2022, the summary income statement and summary statement of comprehensive income for the year then ended and related notes, are derived from the audited financial statements of the Branch for the year ended 31 December 2022. We expressed an unmodified audit opinion on those financial statements, from which the summary financial statements are derived, in our report dated 4 May 2023.

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

Management's Responsibility for the Summary Financial Statements

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

Auditor's Responsibility

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

Opinion

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

Li Ching Lap Bernard
Certified Public Accountant
PricewaterhouseCoopers

Macao, 4 May 2023