



## BANCO WELL LINK, S.A.

Annual Disclosure  
for the year ended 31 December 2020

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\* Audited

## 1. Summary of the Board of Directors' Report

The Directors of Banco Well Link, S.A. (the "Bank") present their report of the Bank for the year ended 31 December 2020.

### **Business and Management Report**

In 2020, with the guideline of "establishing a foundation, having a sustainable development, serving the local community, and expanding to the Guangdong-Hong Kong-Macau Greater Bay Area", Well Link Bank has achieved continuous and steady improvement in scale, quality and efficiency. As of December 31, 2020, the Bank's total assets reached MOP12.39 billion, where total deposits of MOP10.28 billion, and total loans MOP4.19 billion, representing increases of 22.8%, 34.2%, and 36.9% respectively from the end of 2019. In 2020, the Bank recorded a net interest income of MOP230 million, corresponding an increase of 61.3% over the previous year, and a pre-tax profit of MOP102 million.

Upholding the spirit of bridge during all the services, the Bank has strengthened the financial business capabilities of its branches, it has increased the layout of branches and outlets, and has overcome the difficulties in operation and management caused by the epidemic. Adhering to the principle of "not forgetting our original intention and sincerely serving the society", we have actively promoted the establishment of barrier-free branches.

In 2020, the Bank further strengthened the service providing capabilities on the mobile platform of smart banking, continuously improved the functions and security of the bank application, enhanced user experience, and fully supported customers for them to easily handle various accounts and business issues without leaving home saving valuable time for customers.

The Bank has successfully joined the JETCO network, allowing customers to withdraw money from the ATMs of banks that have the JETCO logo without paying any handling fee.

The Bank keeps seeking advancement, improving with the old and bringing forth the new, bringing multiple product lines: launching loan products for the Greater Bay Area; developing smart deposit services; and then promoting Well Link Securities services, which provides convenient channels for customers to trade Hong Kong stocks; in addition, we have also safe deposit boxes, E-Billing, online account opening and other products, that provide our customers with rich and diversified value-added services.

Since its establishment, Well Link Bank has been following the national development policies of the Guangdong-Hong Kong-Macau Greater Bay Area. And rooted Macau, under the spring breeze of the integration of the Greater Bay Area, it survives in fierce competition, and develops with innovation. Upholding "take root in the community, work all year round" as the external action guide in the application of the spirit of bridges, and "led by science and technology provide full-serve to customers" as our internal strength of continuous self-training, we firmly implement the philosophy of operation "based on Hong Kong and Macao, building bridges in the whole world." We do not afraid of any occurrence, whether it comes with wind or rain, we do not afraid of dangers, and we will make unremitting efforts to promote the commonality of finance between Guangdong, Hong Kong and Macao!

Time and tide wait for no man, good things come to the one who works. In 2021, the Bank will, with a positive attitude, take full use of opportunities in the development of the Guangdong-Hong Kong-Macao Greater Bay Area. With the spirit and style of pragmatism, prudence, innovation and responsibility, we will serve the Macau market attentively, develop high-quality products and services, and strengthen compliance and risk control, be abide by corporate social responsibility, strive to build a high-quality and smart bank with characteristics, and always maintain a vigorous spirit, perseverance and determination to contribute to the Macau society.

### **Results and appropriations**

According to the laws and the Bank's Article of Associations, the Board of Directors proposed to the shareholders that the net profit of 90,186,312 patacas (ninety million one hundred eighty six thousand three hundred twelve patacas) completed on December 31, 2020 is used in the following ways:

- (1) Legal reserve: 18,037,262 patacas, consistent with 20% of the net profit
- (2) Retained income: 72,149,050 patacas

## **2. The Report from the Supervisory Board**

Pursuant to the applicable legal and statutory provision and the Articles of Association, the Supervisory Board hereby submits its activity report and opinion on the Board of Directors' Report and Accounts of BANCO WELL LINK, S.A., for the Financial Year ended 31 December 2020.

The Board of Directors' Report outlines in a clear manner the economic situation and progress of the Bank's activity during the 2020 Financial Year.

We have examined the regularity of the books and accounting records and are not aware of any non-compliance with the law and the articles of association.

As a result of our examination, we believe the Board of Directors' Report gives a fair view of the Bank's activity and the Accounts comply with the law and statutory provisions.

Based on such examination and conclusions, we are of the opinion that:

1. The 2020 Audited Financial Statement performed by Ernst & Young should be approved, and considered to be appropriate for submission to the Shareholders' Meeting for approval;
2. The proposal relating to the appropriation of profits should be approved.

Macau, 29 March 2021

### 3. Governing Bodies and Qualified Shareholders

Chairing Board of Shareholders' meeting

Chairman : Xu Chujia

Secretary : Yeung Chi Shing

Secretary : Xiang Fei

Board of Directors :

Chairman : Zhang Shengman

Directors : Xu Chujia

Paulo Jorge Fernandes Franco

Hon Wai Ming

So Shing Shun

Fang Hongguang

Lao Pun Lap

Appointed on 11.08.2020

Antonio Jose Felix Pontes

Appointed on 16.11.2020

Chong Sio Fai

Appointed on 11.06.2020

Huang Ruisheng

Cai Kunshan

Appointed on 15.01.2020

Artur Jorge Teixeira Santos

Ngan Yuen Ming

Resigned on 30.06.2020

Chen Hua

Resigned on 31.03.2020

Tse Yung Hoi

Resigned on 31.05.2020

Du Miaomiao

Resigned on 10.06.2020

Executive Committee :

Chong Sio Fai

Appointed on 11.06.2020

Huang Ruisheng

Cai Kunshan

Appointed on 15.01.2020

Artur Jorge Teixeira Santos

Du Miaomiao

Resigned on 10.06.2020

Supervisory Board :

Chairman : Ng Man Kung

Members : Vong Hin Fai

CSC & Associates – Sociedade de Auditores (represented by Mok Chi Meng)

Company Secretary : Xiang Fei

**Institutions in which have holdings in excess of 5% in the share capital,  
or over 5% of their own funds:**

	<i>Total Capital</i>	<i>Holding capital</i>	<i>% of Total Capital</i>
Europe Assisatance (Macau) – Serviços de Assistência Personali- zados, Lda.	MOP 400,000	MOP 100,000	25%
Zhuhai Liqiao Jinrong Keji Youxian Gongsi	CNY 10,000,000	CNY 2,000,000	20%

**Qualified Shareholders:**

Shareholders with a qualified holding as of 31 December 2020:

Well Link Holding Limited	59.67%
Kingyin (Macau) Holdings Limited	15%
Shengman Investments Limited	10%

## 4. Report of Corporate Governance

The management of the Bank is entrusted to the following governing bodies:

### Chairing Board of Shareholders' meeting

The Chairing Board of Shareholders' meeting is composed of shareholders holding at least one hundred shares of the company and its deliberations, when taken in accordance with law and statutes, shall be mandatory for all, regardless the number of shares they owned.

The Chairing Board of Shareholders' meeting is ordinarily held at the end of March of each year in order to discuss the report and accounts of the Board of Directors and the Supervisory Board Report of the previous year, to carry out the elections when necessary and discuss any other matters required by law.

### Board of Directors

The administration and management of all the affairs and interests of the Bank is supervised by Board of Directors which shall be composed of no less than three members. The Board main responsibilities, among others, are as follows:

- Coordinate the activities of the Bank;
- Establish the organization units of bank and approve their regulations;
- Deliberate on the establishment of an Executive Committee, which will consist of not less than three members, define competence, powers and way of operation and delegating it the management of the business and the use of corresponding powers;
- Prepare accounts that must be submitted to the Board of the General Meeting and submit to the Supervisory Board all documents required by law; and
- Perform all acts aimed in achieving the Bank's activities and all other duties assigned by the Status.

### Supervisory board

The Supervisory board comprises of three (3) members, in which one (1) should be a registered auditor. The Supervisory board responsibilities, among others, are as follows:

- Closely monitor the management of the bank;
- Ensure compliance with the laws, regulations and articles of the association;
- Examine the books and accounting records;
- Fulfill other obligations imposed by law and the articles of the association; and
- Annually prepare a Supervisory Report and give opinion on the Board of Directors' Report, Balance Sheet, Profit and Loss Account, and the proposed appropriation of profits by the Board of Directors.

#### **4. Report of Corporate Governance(continued)**

##### Executive Committee

The Board of Directors, through its Executive Committee (“EC”), is responsible for establishing and maintaining an adequate and effective internal control system and establishment and maintenance of risk management system. The EC was also granted such powers and authorities necessary for conducting and managing the Bank’s normal banking and related business activities.

Establishing and maintaining an adequate and effective internal control system implies not only defining the system’s underlying principles and objectives, which must be incorporated into the Bank’s strategy and policies, but also making sure that they are complied with by all employees, and that at all times the Bank has the necessary competence and resources to conduct its activity in strict compliance with the internal control system.

The EC is also responsible for the establishment and maintenance of a solid risk management system, which is within the framework of an adequate overall control environment. Alongside of efficient information and communication system and an effective monitoring process, this guarantees the adequateness and effectiveness of the Bank’s internal control system. The EC defines the objective risk profile, establishes the global and specific limits for exposures, and approves the procedures required to monitor these exposures, thus, ensuring that the established limits are complied with.

The EC meets regularly to review the management and performance of the Bank.



## 5. Independent Auditor's Report on the Summary Financial Information

### **To the shareholders of Banco Well Link, S.A.**

(Incorporated in Macao with limited liability by shares)

We have audited the financial statements of Banco Well Link, S.A. for 2020 in accordance with Auditing Standards and Technical Auditing Standards of the Macao Special Administrative Region. In our auditor's report dated 29 March 2021, we expressed an unmodified opinion on these financial statements.

The audited financial statements referred to above comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The accompanying summary financial information set out on pages 10 to 13 prepared by the management is a summary of the audited financial statements. In our opinion, the summary financial information is consistent, in all material respects, with the audited financial statements.

For a better understanding of the financial position and financial performance of Banco Well Link, S.A. and the scope of our audit, the summary financial information should be read in conjunction with the audited financial statements and our independent auditor's report.

**BAO King To** (*Certified Public Accountant*)

**Ernst & Young**

*Certified Public Accountants*

Macao

29 March 2021

## 6. Balance Sheet

BANCO WELL LINK, S.A.  
Balance sheet as at 31 December 2020  
(Expressed in Macau Patacas)

ASSETS	GROSS ASSETS	PROVISION DEPRECIATION AND AMORTIZATION	NET ASSETS
CASH	37,520,209.91	-	37,520,209.91
DEPOSIT WITH AMCM	205,846,964.61		205,846,964.61
VALUES FOR COLLECTION	5,782,732.06		5,782,732.06
DEPOSIT ON DEMAND WITH LOCAL CREDIT INSTITUTIONS	64,000,014.41		64,000,014.41
DEPOSIT ON DEMAND WITH FOREIGN CREDIT INSTITUTIONS	181,867,209.96		181,867,209.96
OTHER VALUES	95,171.23		95,171.23
LOANS AND ADVANCES	4,187,720,902.71	4,275,512.15	4,183,445,390.56
PLACEMENTS WITH LOCAL CREDIT INSTITUTIONS	2,664,581,880.71		2,664,581,880.71
DEPOSIT AT CALL AND AT TERM ABROAD	3,337,631,709.45		3,337,631,709.45
SHARES, BONDS AND OTHER SECURITIES	969,018,118.97		969,018,118.97
DEBTORS	22,417,498.54		22,417,498.54
OTHER APPLICATIONS	580,000,000.00		580,000,000.00
INVESTMENTS	2,550,410.00		2,550,410.00
EQUIPMENTS	17,541,735.91	5,054,671.08	12,487,064.83
DEFERRED EXPENDITURES	45,604,782.29	16,158,350.08	29,446,432.21
INSTALLATION EXPENDITURES	32,919,274.48	7,560,181.09	25,359,093.39
CONSTRUCTIONS IN PROGRESS	12,769,005.53		12,769,005.53
INTERNAL ACCOUNTS	58,864,413.63		58,864,413.63
<b>TOTAL</b>	<b>12,426,732,034.40</b>	<b>33,048,714.40</b>	<b>12,393,683,320.00</b>

## 6. Balance Sheet (continued)

BANCO WELL LINK, S.A.  
Balance sheet as at 31 December 2020 (continued)  
(Expressed in Macau Patacas)

LIABILITIES	SUB-TOTAL	TOTAL
DEPOSITS ON DEMAND	1,322,930,397.97	-
FIXED TERM DEPOSITS	6,976,867,377.67	-
PUBLIC SECTOR DEPOSITS	1,982,521,855.54	10,282,319,631.18
BORROWING FROM LOCAL CREDIT INSTITUTIONS	233,210,053.03	-
FOREIGN CURRENCY LOANS	196,758,928.35	-
CHEQUES AND PAYMENT ORDERS	9,239,745.28	-
CREDITORS	3,076,599.21	-
OTHER LIABILITIES	2,144,327.50	444,429,653.37
INTERNAL ACCOUNT	-	175,711,084.93
PROVISION FOR OTHER RISKS AND CHARGES	-	42,563,000.00
CAPITAL	1,200,000,000.00	-
LEGAL RESERVE	68,433,945.57	-
STATUTINARY RESERVE	-	-
OTHER RESERVES	-38,037,044.40	1,230,396,901.17
RESULTS CARRIED FORWARD	128,076,737.63	-
PROFIT FOR THE YEAR	90,186,311.72	218,263,049.35
<b>TOTAL</b>		<b>12,393,683,320.00</b>

## 7. Profit & Loss Account

**BANCO WELL LINK, S.A.**  
**Operating Profit and Loss Account**  
**For the year ended 31 December 2020**  
*(Expressed in Macau Patacas)*

DEBIT	AMOUNT	CREDIT	AMOUNT
INTEREST EXPENSES	236,999,140.40	INTEREST INCOME	465,731,323.35
STAFF COSTS:		BANKING SERVICE INCOME	40,218,455.81
MANAGEMENT REMUNERATION	2,880,846.96	OTHER BANKING SERVICES INCOME	8,839,823.02
EMPLOYEES REMUNERATION	66,148,496.31	SECURITIES AND FINANCIAL INVESTMENT INCOME	6,764,606.81
SPECIAL EXPENSES	1,310,349.67	OTHER BANKING INCOME	394,626.71
OTHER STAFF COSTS	751,528.12	INORGANIC PROVISIONS	
THIRD PARTY SUPPLIES	1,892,678.87	OPERATING LOSS	-
THIRD PARTY SERVICES	59,561,167.39		-
OTHER BANKING EXPENSES	18,563,820.25		-
INDUSTRIAL AND OTHER TAXES	337,734.00		-
OTHER EXPENSES	1,643,627.00		-
DEPRECIATION AND AMORTIZATION	15,198,607.22		-
PROVISIONS FOR OTHER RISKS AND CHARGES	13,557,292.95		-
OPERATING PROFIT	103,103,546.56		-
TOTAL	521,948,835.70	TOTAL	521,948,835.70

**7. Profit & Loss Account (continued)**

**BANCO WELL LINK, S.A.**  
**Profit and Loss Account**  
**For the year ended 31 December 2020**  
*(Expressed in Macau Patacas)*

DEBIT	AMOUNT	CREDIT	AMOUNT
OPERATING LOSS	-	OPERATING PROFIT	103,103,546.56
PRIOR YEAR LOSS	-	PROFIT YEAR GAIN	-
EXCEPTIONAL LOSS	1,382,314.84	EXCEPTIONAL PROFIT	-
COMPLEMENTARY (CORPORATE) INCOME TAX	11,534,920.00	PROVISIONS UTILISED	-
NET PROFIT	90,186,311.72	NET LOSS	-
TOTAL	103,103,546.56	TOTAL	103,103,546.56

CHIEF EXECUTIVE OFFICER

Chong Sio Fai

EXECUTIVE DIRECTOR

Huang Ruisheng

Macau, 29 March 2021

## 8. Memorandum Items

BANCO WELL LINK, S.A.  
Memorandum Items  
(Expressed in Macau Patacas)

MEMORANDUM ITEMS	AMOUNT
VALUES HELD IN DEPOSIT	-
VALUES HELD FOR COLLECTION	-
VALUES HELD AS GUARANTEE	9,643,118,229.36
BANK GUARANTEES	49,854,651.40
LETTER OF CREDIT ISSUED	812,060.74
ACCEPTANCES OUTSTANDING	-
FORWARDS PURCHASE	-
FORWARDS SALES	-
OTHER MEMORANDUM ITEMS	764,232,234.97

## 9. The Cash flow statement

CASH FLOWS FROM OPERATING ACTIVITIES	MOP
Profit before tax	101,721,232
Adjustments for:	
Depreciation	15,198,610
Gain on disposal of debt investments at fair value	(6,764,611)
Provision for doubtful loans and advances	13,557,293
Loss on disposal of items of plant and equipment	1,382,315
Exchange adjustments	(158,161,500)
	(33,066,661)
Increase in minimum statutory deposits with AMCM	(40,717,000)
Increase in loans and advances	(1,128,669,088)
Increase in placements with local credit institutions with original maturity beyond three months	(1,592,721,881)
Increase in placements with foreign credit institutions with original maturity beyond three months	(2,158,979,709)
Decrease in interest receivables and other assets	32,192,858
Increase in deposits on demand	23,419,439
Increase in fixed term deposits	2,185,128,050
Increase in other liabilities	11,707,880
Increase in other payables	20,464,807
	(2,681,241,305)
Cash generated from operations	(899,372)
Macao complementary tax paid	
Net cash flows from operating activities	(2,682,140,677)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	
Purchases of items of plant and equipment	(27,001,227)
Purchases of debt investments	(59,741,170)
Proceeds from disposal of debt investments	1,562,832,049
Acquisition of an associate	(118,350)
Net cash flows used in investing activities	1,475,971,302
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from issue of shares	-
Net cash flows from financing activities	-

## 9. The Cash flow statement(continued)

NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,206,169,375)
Cash and cash equivalents at beginning of year	3,658,026,574
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>2,451,857,199</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>	
Cash	37,520,210
Deposits and clearing balances with AMCM with original maturity at or within three months	205,846,965
Deposits on demand with local credit institutions with original maturity at or within three months	245,867,224
Placements with local credit institutions with original maturity at or within three months	1,287,912,400
Placements with foreign credit institutions with original maturity at or within three months	791,460,400
Less: Minimum statutory deposits with AMCM	(116,750,000)
<b>Cash and cash equivalents as stated in the statement of cash flows</b>	<b>2,451,857,199</b>



## 10. Off-balance sheet exposures other than derivative transactions

At 31 December 2020, the Bank had the following contingent liabilities and outstanding commitments:

(a)

<i>Off balance sheet items outstanding (contract amount) at the balance sheet date</i>	
	<i>(in MOP)</i>
Bank guarantees issued	49,854,651
Letter of Credit	812,061
Undrawn facilities	397,724,830

AMCM requires that general provision be maintained at 1% of the endorsements and performance guarantees on behalf of customers. Specific provisions on contingent credit are made when there is evidence that endorsement and performance guarantees on behalf of customers are not fully recoverable.

(b) *Operating lease commitments*

At 31 December 2020, the Bank had future aggregate minimum lease payments under operating leases as follows (in MOP):

Within one year	20,326,129
In the second to fifth years, inclusive	47,492,026
After five years	24,191,726
	<hr/>
	92,009,881



## 12. Accounting Policies (continued)

### (c) *Financial investments*

#### *Investment in subsidiary*

Subsidiary is a company controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities. Investment in subsidiary are carried at cost less any provision for permanent diminution in value. The result of the subsidiary is accounted for to the extent of dividends received and receivable.

#### *Investment in associate*

An associate is a company in which the Bank holds, directly or indirectly, less than 50% but 20% or more of the voting power of the Bank. While the Bank does not exercise control, the investment is of a permanent nature and is held as a result of the Bank's activities being similar or complementary to those of the Bank. Investment in associate is carried at cost less provision. The result of associate is accounted for the extent of dividends received and receivable.

### (d) *Loans and advances to customers*

- (i) Loans and advances to customers are subject to general provisions and specific provisions for bad and doubtful debts.
- (ii) All advances on which principal or interest have been overdue for more than three months are classified as non-performing in accordance with the requirements of the AMCM.

Specific provisions are made in accordance with the requirements set out under Notice No. 18/93 issued by AMCM against the difference between the carrying amounts of loans and advances and the recoverable amounts. Recoverable amounts include the estimated cash received from the guarantor or from the disposal of loan collaterals. General provision is maintained at not less than 1% of the aggregate value of loans and advances that are not overdue for more than three months at the date of reporting period. Changes in the provisions are recognised in profit or loss. Where the loans and advances have no reasonable prospect of recovery, the balance is written off. An amount recovered from loans and an advance that has been written off will be recognised as income in profit or loss.

- (iii) Interest income from non-performing loans is no longer accrued but recorded in an off-balance sheet account. An amount subsequently received will first be offset against the principal of outstanding loans and advances. Only when the principal of loans and advances is fully repaid can the amount receive in excess be recognised as interest income.

## 12. Accounting Policies (continued)

- (iv) In the recovery of non-performing loans, the Bank may take repossession of collateral assets through court proceedings or by the borrowers' voluntary delivery of possession. In order to achieve an orderly realisation, the collateral assets acquired in exchange for advances are reclassified to other accounts. The assets acquired are recorded at the carrying amount of the advances derecognised at the date of exchange. Provision for impairment losses, if necessary, is the difference between the estimated fair value of the assets and the carrying amount of the assets at acquisition.

### *(e) Equipment and other fixed assets*

Equipment and other fixed assets are stated at cost less depreciation. Depreciation is calculated to write off the cost of the fixed assets on a straight-line basis over their estimated useful lives as follows:

- Furniture, fixture and equipment	5 to 10 years
- Computer equipment	4 years
- Motor vehicles	5 years
- Leasehold improvements	6 years
- Computer software	3 to 10 years
- Installation expenditures	3 years

### *(f) Deferred expenses*

Deferred expenses include installation expenditures on the Bank's leasehold properties and computer software acquired and are amortized over three years on a straight-line basis. Unaudited information (continued)

### *(g) Translation of foreign currencies*

Foreign currency transactions during the year are translated into Macau Patacas at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Macau Patacas at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Macau Patacas using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

## 12. Accounting Policies (continued)

### (h) *Operating leases*

Where the Bank has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

### (i) *Cash and Cash equivalents*

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (j) *Off balance sheet financial derivatives used for asset and liability management purposes*

The interest arising from the interest rate derivative instruments is recognised in the income statement as the interest income or expense has received or receivable or paid and payable during the period. The gain or loss arising from the settlement and on retranslation of foreign exchange derivative instruments is recognised in profit or loss in the period in which they arise. The financial derivative instruments are recorded off balance sheet.

### (k) *Income tax*

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

Deferred tax is provided using the balance sheet liability method, providing temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rate enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 12. Accounting Policies (continued)

### (l) *Related parties*

For the purposes of these financial information, related parties include:

- (i) Any person or any close family member of that person if that person:
  - (1) has control or joint control over the credit institution;
  - (2) has significant influence over the credit institution; or
  - (3) holds a qualifying holding in the credit institution;
  - (4) is a member of the board of directors or supervisory board of the credit institution or of a parent of the credit institution; or
  - (5) is a member of the key management personnel, other than a member of the board of directors or supervisory board as identified in sub-item (4) above, of the credit institution or of a parent of the credit institution.
- (ii) Any entity if any of the following conditions applies:
  - (1) That entity and the credit institution are members of the same group (e.g. parent, subsidiary and fellow subsidiary).
  - (2) That entity holds a qualifying holding in the credit institution.
  - (3) That entity is an associate or joint venture of the credit institution (or an associate or joint venture of a member of a group of which the credit institution is a member).
  - (4) The credit institution is an associate or joint venture of that entity (or an associate or joint venture of a member of a group of which that entity is a member).
  - (5) That entity and the credit institution are both joint ventures of the same third party.
  - (6) That entity is a joint venture of a third entity and the credit institution is an associate of that third entity.
  - (7) The credit institution is a joint venture of a third entity and that entity is an associate of that third entity.
  - (8) That entity is controlled or jointly controlled by a person identified in (i).

## 12. Accounting Policies (continued)

- (9) A person identified in (i)(1) has significant influence over that entity or is a member of the key management personnel of that entity (or of a parent of that entity).
- (10) A person identified in (i)(4) is a member of the key management personnel of that entity (or of a parent of that entity).

## 13. Related party transactions

### *(a) Policy for lending to related parties*

A number of transactions are entered into with related parties in the normal course of business. These include deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates.

The Bank's lending policy to related parties are as follows:

- (i) The Bank shall not incur an exposure to any person, individual or corporate, which holds, directly or indirectly, a qualifying holding in it, or to companies in which this person has direct or indirect control, which at any time in the aggregate exceeds 20% of its own funds;
- (ii) The aggregate exposure of all holders of qualifying holdings and companies referred to in (i) may not exceed at any time, 40% of the Bank's own funds;
- (iii) The operations referred to in (i) and (ii) require approval from all the members of the Board of Directors and a favourable opinion from the Supervisory board, and the respective terms shall be notified to AMCM within ten (10) days counted from the date of the respective approval;
- (iv) The Bank shall not incur any exposure in the following cases and above the following limits:
  - (1) against the security of its own shares;
  - (2) to the members of the Board of Directors and Supervisory board, their spouses so long as they are not judicially separated or married under the regime of separate property, children, parents, step-children, step-parents, sons-in-law, daughters-in-law, parents-in-law or companies under their control or to which Board of Directors or Supervisory board they belong, to an aggregate amount exceeding 10% of own funds;

### 13. Related party transactions (continued)

- (3) to each of the entities mentioned in (2), to an amount exceeding 1% of own funds; and,
- (4) to each employee, for an amount which exceeds his or her total net annual income.
- (v) The exposure referred to in above (iv) (2) and (iv) (4) may exceed the limits set therein when the credit is intended for home purchase by the respective beneficiary, collateralized by a real guarantee which has been evaluated by an independent value and registered in the name of the Bank.

The volume of related party transactions, outstanding balances at the year-end and related income and expense for the year are as follows:

**(b) Transactions with key management personnel**

*Key management personnel of the Bank*

In addition to the transactions and balances disclosed elsewhere in these financial information, the Bank provided commercial banking services to key management personnel of the Bank. The commercial banking services were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

**(c) Transactions with group companies**

During the year, the Bank entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and guarantees issued. The transactions were priced at the relevant market rates at the time of each transaction.

<i>The amount of related party transactions during the year is set out below</i>	<i>(in MOP)</i>
Directors:	
Interest expenses	(54,736)
Associates:	
Interest expenses	(438)
Other related parties	
Interest expenses	(139,804)
Fee and commission income	-



### 13. Related party transactions (continued)

*The outstanding amounts of related party transactions as at the end of the reporting period are set out below (in MOP)*

Shareholders:	
Deposit on demand	(1,468,358)
Directors:	
Deposit on demand	(2,838,276)
Fixed term deposits	(1,616,917)
Interest payables	(26,611)
Associates:	
Deposit on demand	(515,838)
Interest payables	(2,332,060)
Other related parties	
Deposit on demand	(36,049,273)
Interest payables	(1,154)
	-

## 14. Capital

### (a) *Share capital*

#### **Authorised, issued and fully paid (in MOP):**

1,200,000 shares of MOP1,000 each	<u>1,200,000,000</u>
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### (b) *Capital management*

The Bank's policy is to maintain a strong capital base to support the development of the business and to meet the AMCM's statutory capital requirement. In addition to meeting the requirements of AMCM, the Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns to shareholders. This is achieved by allocating capital to various business areas and business units on the basis of specific risk profiles and by a constant measurement and monitoring of the performance. Capital and its allocation are therefore extremely important for the strategy, since capital is the object of the return expected by investors on their investment in the Bank, and also because it is a resource that has to comply with regulatory provisions.

The Bank's approach for the calculation of regulatory capital and capital charges (credit risk, market risk and operational risk) are in accordance with the AMCM rule. The Bank has an internal capital assessment process to ensure sufficient capital is available to absorb both regulatory capital requirements and any additional material risks inherent in the Bank's present and future business activities. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Bank, to the extent that these do not conflict with the directors' fiduciary duties towards the Bank.

Capital is managed dynamically and the Bank prepares the financial plan, monitors capital ratios for regulatory purposes on a monthly basis and anticipates the appropriate steps required to achieve its goals. As the Bank is part of a larger group, the Bank's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

## 14. Capital (continued)

### (b) Capital management (continued)

The Bank's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the Bank belongs.

#### (i) Own funds

The Bank's own fund as of 31 December 2020 amounted to MOP 1,401 million. The value of own funds is the sum of core capital and supplementary capital less the amounts subject to deductions (if there were any).

<i>Component of own fund is as follows</i>	<i>(in MOP)</i>
Share capital	1,200,000,000
Legal reserve	68,433,945
Other reserve	112,873
Changes in fair value of bonds	-38,149,917
Retained earnings	128,076,738
Total core capital	1,358,473,639
General provision/ Total supplementary capital	42,563,000
Total amount of own funds	1,401,036,639

## 14. Capital (continued)

### (b) Capital management (continued)

#### (i) Own funds (continued)

The Bank's core capital consists of the following:

- Paid-up share capital pertains to 1,200,000 equity shares of authorised, issued and fully paid shares. The Bank does not have any other capital instruments except for these equity shares as qualifying capital.
- Legal reserve is a non-distributable reserve set aside from profit each year in accordance with FSA which provides that an amount of not less than 20 % of the profit after taxation be set aside each following year until the reserve reaches 50 % of the Bank's issued share capital and thereafter 10 % of the profit after taxation be set aside each year until the reserve is equal to the Bank's issued share capital.
- Other reserve pertains to the one-time transfer of retained profits in the prior year.
- Retained earnings are the accumulated undistributed profits, net of legal reserves set aside in accordance with FSA. Profit for the year pertains to the income earned for the period.

The Bank's supplementary capital represents the statutory reserves on general provision calculated in accordance with AMCM rules (see Note 5 d (ii)).

#### (ii) Capital Adequacy Ratio

As of 31 December 2020, the Bank has maintained a Capital Adequacy Ratio of 20.74% against AMCM minimum regulatory requirement of 8%. The Capital Adequacy Ratio is calculated with the Bank's own fund expressed as a percentage of the sum of its "credit risk-weighted assets", "market risk-weighted exposures" and "operational risk-weighted exposures". The capital solvency ratio is calculated in accordance with Notice no. 011/2015-AMCM.

## 15. Credit risk management

Credit risk is the risk of financial loss to the Bank when the counterparty fails to meet the contractual obligations, and arises principally from the Bank's loans and advances to customers and investments in debt securities and liquid securities. The Bank has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of loans and advances to customers, individual credit evaluations are performed on all customers requiring credit. These evaluations focus on the customer's past history of making payments and current ability to pay, taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Bank obtains collateral from customers.

Loans and advances to customers on which principal or interest have been overdue are classified as past due in accordance with the requirement set-out under Notice no. 18/93-AMCM. Past due accounts are further classified into groups based on the number of days past due as follows:

- Group I - up to 3 months;
- Group II - over 3 months and less than or equal to 12 months;
- Group III- over 12 months and less than or equal to 18 months;
- Group IV- over 18 months.

Loans and advances to customers are subject to general provisions and specific provisions for bad and doubtful debts in accordance with Notice no. 18/93-AMCM as follows:

- (i) At the end of each quarter, a minimum specific provision shall be set up for past due accounts, based on their respective balances net of the realizable value of any existing and duly formalized tangible collateral, under Group II, Group III and Group IV at 40%, 80% and 100%, respectively.
- (ii) General provision is maintained at not less than 1% of the aggregate value of loans and advances that are not overdue for more than three months at the date of reporting period.

## 15. Credit risk management (continued)

Changes in the provisions are recognized in profit or loss. Where the loans and advances have no reasonable prospect of recovery, the balance is written off. An amount recovered from loans and advances that have been previously written off will be recognized as income in profit or loss.

As of 31 December 2020, amount of overdue loans and advances (more than 3 months) is MOP 7.27 million, the specific provision was amounted to MOP 4.28 million. A general provision was amounted to MOP 42.56 million, which meets the minimum reserve requirement by AMCM.

Investment in debt securities and liquid securities are quoted in a recognised stock exchange and with counterparties that have high credit ratings. Furthermore, transactions involving derivative financial instruments are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations, thus, no impairment loss is recognized as of 31 December 2020.

## 15. Credit risk management (continued)

### (a) *Geographical analysis of loans and advances to customers*

<i>Region</i>	<i>Gross loans and advances to customers MOP</i>	<i>Overdue loans and advances (more than 3 months) MOP</i>
Macau SAR	69,075,278	4,131,110
Hong Kong	2,541,735,559	38,627
Cayman Islands	30,159,765	-
China, People's Republic	196,476,389	105,775
Virgin Islands	1,036,998,400	-
Samoa	309,000,000	-
Total	4,183,445,391	4,275,512

## 15. Credit risk management (continued)

The geographical analysis is classified by location of the borrowers after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party situated in an area different from the counterparty.

### (b) *Geographical analysis of investments in debt and other securities*

<i>Region</i>	<i>Gross Investments MOP</i>
Hong Kong SAR	466,487,399
Of which:	
– Banks	367,969,994
– Government/Public sectors	-
– Others	98,517,405
–	
United Kingdom	226,142,461
Of which:	
– Banks	226,142,461
– Government/Public sectors	-
– Others	-
China	255,788,259
Of which:	
– Banks	169,455,526
– Government/Public sectors	86,332,733
– Others	-
Macau SAR	20,600,000
Of which:	
– Banks	20,600,000
– Government/Public sectors	-
– Others	-
Total	969,018,119



## 15. Credit risk management (continued)

### (c) Industry distribution of exposures

The following information concerning the further analysis of loans and advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors.

	<i>Gross loans and advances to customers</i>	<i>Overdue loans and advance (more than 3 months)</i>
	<i>(MOP)</i>	<i>(MOP)</i>
For other personal use	1,622,145,152	4,275,512
Financial Investment	1,860,998,400	-
Construction and Public Works	309,000,000	-
Wholesale and retail business	307,642,074	-
Manufacturing	30,159,765	-
Others	53,500,000	-
	4,183,445,391	4,275,512

## 15. Credit risk management (continued)

### (d) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period as at 31 December 2020 to the contractual maturity date:

	<i>Maturity date of financial instruments</i>						<i>Total</i>
	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	
	MOP	MOP	MOP	MOP	MOP	MOP	MOP
<b>Assets</b>							
Cash and short term funds	37,520,210	-	-	-	-	-	37,520,210
Deposits with credit institutions	451,714,189	-	-	-	-	-	451,714,189
Placements with credit institutions	-	5,285,065,229	1,297,148,361	-	-	-	6,582,213,590
Loans and advances	-	208,499,786	63,182,714	749,433,980	3,088,253,627	36,359,103	4,145,729,210
Debt investments	-	-	-	37,197,266	49,135,467	882,685,386	969,018,119
Interest receivables	-	20,216,214	13,884,711	3,103,572	7,953,694	130,031	45,288,222
Other assets	23,795,198	89,550	-	-	-	-	23,884,748
<b>Total financial assets</b>	<u>513,029,597</u>	<u>5,513,870,779</u>	<u>1,374,215,786</u>	<u>789,734,818</u>	<u>3,145,342,788</u>	<u>919,174,520</u>	<u>12,255,368,288</u>

## 15. Credit risk management (continued)

### (e) Analysis of assets and liabilities by remaining maturity (continued)

	<i>Maturity date of financial instruments</i>						<i>Total</i> MOP
	<i>On demand</i> MOP	<i>Less than</i> <i>3 months</i> MOP	<i>3 to 6</i> <i>months</i> MOP	<i>6 to 12</i> <i>months</i> MOP	<i>1 to 5</i> <i>years</i> MOP	<i>More than</i> <i>5 years</i> MOP	
<b>Liabilities</b>							
Deposits on demand	1,324,080,379	-	-	-	-	-	1,324,080,379
Fixed term deposits	-	4,816,526,066	2,001,585,352	2,505,429,651	64,537,164	130,000	9,388,208,233
Interest payables	15,268	82,545,261	25,366,947	21,859,330	1,409,135	9,068	131,205,009
Other liabilities	10,150,287	5,057	-	-	-	-	10,155,344
Total financial liabilities	<u>1,334,245,934</u>	<u>4,899,076,384</u>	<u>2,026,952,299</u>	<u>2,527,288,981</u>	<u>65,946,299</u>	<u>139,068</u>	<u>10,853,648,965</u>
Net liquidity gap	<u>(821,216,337)</u>	<u>614,794,395</u>	<u>(652,736,513)</u>	<u>(1,737,554,163)</u>	<u>3,079,396,489</u>	<u>919,035,452</u>	<u>1,401,719,323</u>

### (f) Analysis of past due assets

As of 31 December 2020, amount of overdue loans and advances (more than 3 months) is MOP 7,264,806 and the specific provision is amounted to MOP 4,275,512.

	Overdue Loans and Advances (MOP)	Specific Provision (MOP)
Group II	4,439,349	1,781,408
Group III	1,857,479	1,526,126
Group IV	967,978	967,978
Subtotal	<u>7,264,806</u>	<u>4,275,512</u>

## 16. Market risk management

Market risk is the risk arising from the movements in market prices of on and off-balance sheet positions in interest rates, foreign exchange rates, equity and commodity prices and the resulting change in the profit or loss or reserves of the Bank.

The Bank is exposed to market risk through its holdings of foreign currency denominated financial assets and liabilities, interest bearing financial instruments and equity financial instruments. The principal risk exposure of the Bank is from the fluctuation in the future cash flows or fair value of financial instruments due to the change in market interest rate and foreign exchange rate.

The EC reviews and approves the policies for the management of market risk. It has the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework, such as the established limits and stop-losses. The limits are set by EC and reviewed on a periodic basis with reference to market conditions. It is the Bank's policy that no limit should be exceeded. Treasury department has been delegated the responsibility on risk measurement and monitoring of market risk.

The Bank enters into financial derivative transactions for the management of assets and liabilities. The Bank uses interest rate swaps to manage mismatches in the interest rate of assets and liabilities. For assets and liabilities denominated in foreign currencies, the Bank will be exposed to risks due to the fluctuations of exchange rates. The Bank will use currency swaps and forward contract to mitigate these risks.

As of 31 December 2020, the Bank's market risk is primarily from foreign exchange swap transactions. There were no outstanding interest rate swaps as of balance sheet date.

The capital charge for market risk calculated in accordance with Notice no. 011/2015-AMCM guidelines as follows:

	<i>MOP In '000'</i>
Capital charge on foreign exchange Exposure/Total capital charge for market risk	802
Market Risk Exposure	802

## 17. Interest rate risk

The Bank's interest rate risk arises primarily from loans and advances to customers, deposits and placements, investment in debt securities and borrowings.

Fluctuations in market interest rates affect the Bank's net interest margin by altering the amount of income and costs associated to interest rate products and the value of the underlying assets, liabilities and off-balance sheet items.

The Bank interest rate risk exposure is calculated on the basis of classifying all interest rate sensitive assets, liabilities and off-balance sheet items based on their respective re-pricing schedule. It is assumed that there were no loan prepayments and the non-maturity deposits are fully retained and repriced on the next day. This model is similar to the duration model, using a stress testing scenario corresponding to a parallel shift of 200 basis points in the yield curve for all interest rate levels.

Interest rate risk is re-measured on a monthly basis, or when there is a change in the market condition.

### *Sensitivity analysis*

The following table indicates the instantaneous change in the Bank's economic values of own funds that would arise if interest rates to which the Bank has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. Actual changes in the Bank's economic values of own funds resulting from the change in interest rates may differ from the result of the sensitivity analysis.

As of 31 December 2020, interest rate risk weighted position on all currencies, measured as its impact in the economic values of own funds as follows:

	<b><i>MOP</i></b> <b><i>In '000'</i></b>
MOP	(5,376.25)
HKD	(21,205.14)
USD	33,520.01
CNY	(3,695.68)

## 18. Operational risk management

Operational risks arise from the Bank’s daily operation and fiduciary activities. The Bank’s compliance department play an essential role in monitoring and limiting the Bank’s operational risk. The primary focus of compliance departments is to ensure adherence to the operating guidelines, including regulatory and legal requirements and to pro-actively recommend improvements.

The Bank 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.

## 19. Foreign exchange risk

The Bank’s functional currency is Macau Patacas (“MOP”). The Bank is exposed to currency risk primarily arising from financial instruments that are denominated in United States dollars (“USD”) and other major currencies.

As the MOP is pegged to HKD and the HKD is pegged to the USD, the Bank considers the risk of movements in exchange rates between these currencies to be insignificant.

In respect of balances denominated in foreign currencies other than MOP, USD and HKD, the associated assets are matched to the corresponding liabilities denominated in the same currency. Therefore, the effect of foreign exchange fluctuation is minimized.

The following table indicates the concentration of currency risk as of 31 December 2020:

<i>(In thousand of MOP equivalent)</i>							
	<i>HKD</i>	<i>CAD</i>	<i>CNY</i>	<i>EUR</i>	<i>GBP</i>	<i>USD</i>	<i>OTHERS</i>
Spot as-sets	938,563	57	21	(802)	43	986,830	69
Spot lia-bilities	-	-	-	-	-	-	-
Forward sales	-	-	-	-	-	-	-
Net long (short) posi-tion	938,563	57	21	(802)	43	986,830	69

## 20. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

The Bank's liquidity is managed day-to-day by the Treasury department. The EC of the Bank has the ultimate responsibility for the prudent management of liquidity risk and decision on the structure of the liquidity management. The EC approves the liquidity risk tolerance by defining the level of liquidity risk that the Bank is willing to assume. A liquidity risk strategy is developed and this will be expressed as various high-level quantitative and qualitative targets taking into account the Bank's liquidity needs under both normal and stressful conditions.

To cater for short term funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Bank also performs regular stress tests on its liquidity position to ensure adequate liquidity is maintained at all times.

### (a) Average liquidity

(i)

<i>Average weekly liquidity for the year</i>	<i>MOP</i>
	<i>In '000'</i>
Minimum weekly cash in hand	136,292
Average weekly cash in hand	227,048

The average weekly liquidity is computed as the product of specified assets and liabilities by proportion designated in accordance with AMCM's requirements, as reported in the weekly return submitted to AMCM.

(ii)

<i>Liquidity ratio for the year</i>	<i>In Percentage</i>
1month current ratio	125.2%
3months current ratio	128.8%

The liquidity ratio is computed as the simple average of the percentage of specified assets to liabilities in the last week of each calendar month in accordance with AMCM's requirement, as reported in the monthly return submitted to AMCM.

## 20. Liquidity risk (continued)

<i>(a) Average solvency assets</i>	<i>MOP</i> <b>In '000'</b>
Average specified liquid assets	6,464,880
Average total basic liabilities	8,988,164
Ratio of specified liquid assets to basic liabilities	71.9%

The average ratio of solvency assets to underlying liabilities is computed as the simple average of each calendar month's average ratio in accordance with AMCM's requirement, as reported in the monthly return submitted to AMCM.