



The Macau Chinese Bank Ltd.

Prepared as per

AMCM's guidelines dated 16/11/2012(Circular no.026/B/2012-DSB/AMCM)

The Macau Chinese Bank Limited

Disclosure of Financial Information

For the year ended 31 December 2018

Index for Disclosure of Financial Information	Page N ^o
1. Article °75(1) of FSAM (Financial System Act of Macau)	
(1) Balance Sheet	4-5
(2) Operating Profit & Loss	6
(3) Profit & Loss Account	7
(4) Off-balance-sheet Exposures other than Derivatives Transactions	8
(5) Report from the Board of Directors	9-10
(6) Report of the Supervisory Board	11
(7) Summary of the External Auditors' report	12-13
(8) List of Institutions with more than 5% Interests	14
(9) List of shareholders with Qualifying Holdings	15
(10) Names of the Members of the Company Boards	16
2. Corporate Governance	17
3. Cash Flow Statement	18-19
4. Derivatives Transactions	20
5. Accounting Policies	21-33
6. Related Party Transactions	34-36
(1) Qualitative Disclosure - Policy for Lending to Related Parties	
(2) Quantitative Disclosure - Transactions and Outstanding Balances	
7. Capital	37
(1) Qualitative Disclosure	
(2) Quantitative Disclosure - Components of own Funds & Solvency Ratio	
8. Solvency Ratio	
Quantitative - Capital Adequacy Ratio of Top Consolidated Group & its Significant Bank Subsidiaries	38

9. Credit Risk	39-41
(1) Qualitative Disclosure - Credit Risk Management	
(2) Quantitative Disclosure	
- Maturity Analysis	
- Industry Distribution	
- Geographic Distribution	
- Past Due Assets	
10. Market Risk	42
Market Risk Management Objectives and Policies	
11. Interest Rate Risk	43
(1) Qualitative Disclosure	
(2) Quantitative Disclosure - Increase/Decline in Earnings or Economic Value on Rate Shocks	
12. Operational Risk	44
Operational Risk Management Objectives and Policies	
13. Foreign Exchange Risk	45
(1) Risk Management Objectives and Policies	
(2) Total Net Long and Net Short Positions in Foreign Currencies	
14. Liquidity Risk	46-47
(1) Qualitative Disclosure	
(2) Quantitative Disclosure	
15. Other Information	48

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

(1) Balance Sheet

THE MACAU CHINESE BANK LTD

澳門華人銀行股份有限公司

(Published in accordance with the Decree-Law No. 32/93/M, 5 July, 1993 of Macau Financial System Act)

(根據七月五日第三二/九三/M號法令核準之金融體系法律制度第七十五條之公告)

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2018

資產負債表截至二零一八年十二月三十一日止

MOP
澳門元

ACTIVO 資產	ACTIVO BRUTO 資產總額	PROVISÔES AMORTIZAÇÔES E MENOS - VALIAS 備用金,折舊和減值	ACTIVO LÍQUIDO 資產淨額
CAIXA 現金	64,128,000.39		64,128,000.39
DEPÓSITOS NA AMCM AMCM存款	139,607,068.41		139,607,068.41
VALORES A COBRAR 應收賬項			
DEPÓSITOS À ORDEM NOUTRAS INSTITUIÇÕES DE CRÉDITO NO TERRITÓRIO 在本地之其他信用機構活期存款	209,036,673.47		209,036,673.47
DEPÓSITOS À ORDEM NO EXTERIOR 在外地之其他信用機構活期存款	262,307,519.14		262,307,519.14
OURO E PRATA 金,銀			
OUTROS VALORES 其他流動資產			
CRÉDITO CONCEDIDO 放款	4,539,903,382.24	33,213,719.44	4,506,689,662.80
APLICAÇÕES EM INSTITUIÇÕES DE CRÉDITO NO TERRITÓRIO 在本澳信用機構拆放	268,532,800.00		268,532,800.00
DEPÓSITOS COM PRÉ-AVISO E A PRAZO NO EXTERIOR 在外地信用機構之通知及定期存款	811,096,000.00		811,096,000.00
ACCÕES, OBRIGAÇÕES E QUOTAS 股票,債券及股權	90,515,080.65		90,515,080.65
APLICAÇÕES DE RECURSOS CONSIGNADOS 承銷資金投資			
DEVEDORES 債務人	17,958,177.88		17,958,177.88
OUTRAS APLICAÇÕES 其他投資			
PARTICIPAÇÕES FINANCEIRAS 財務投資			
IMÓVEIS 不動產	210,299,861.72	1,251,897.27	209,047,964.45
EQUIPAMENTO 設備	52,418,746.63	14,832,278.65	37,586,467.98
CUSTOS PLURIENIAIS 遞延費用			
DESPESAS DE INSTALAÇÃO 開辦費用			
IMOBILIZAÇÕES EM CURSO 未完成不動產			
OUTROS VALORES IMOBILIZADOS 其他固定資產			
CONTAS INTERNAS E DE REGULARIZAÇÃO 內部及調整賬	24,702,395.89		24,702,395.89
TOTAIS 總額	6,690,505,706.42	49,297,895.36	6,641,207,811.06

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

(1) Balance Sheet(continued)

THE MACAU CHINESE BANK LTD.

澳門華人銀行股份有限公司

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER, 2018

資產負債表截至二零一八年十二月三十一日止

PASSIVO 負債	SUB-TOTAIS 小結	TOTAIS 總額
DEPÓSITOS À ORDEM 活期存款	764,208,592.46	
DEPÓSITOS C/PRÉ-AVISO 通知存款		
DEPÓSITOS A PRAZO 定期存款	4,475,841,925.18	
DEPÓSITOS DE SECTOR PÚBLICO 公共機構存款	367,652,299.64	5,607,702,817.28
RECURSOS DE INSTITUIÇÕES DE CRÉDITO NO TERRITÓRIO 本地信用機構資金	195,700,000.00	
RECURSOS DE OUTRAS ENTIDADES LOCAIS 其他本地機構資金		
EMPRESTIMOS EM MOEDAS EXTERNAS 外幣借款	86,682,000.00	
EMPRÉSTIMOS POR OBRIGAÇÕES 債券借款		
CREDORES POR RECURSOS CONSIGNADOS 承銷資金債權人		
CHEQUES E ORDENS A PAGAR 應付支票及票據	5,616,846.80	
CREDORES 債權人	27,690,463.33	
EXIGIBILIDADES DIVERSAS 各項負債	908,647.43	316,597,957.56
CONTAS INTERNAS E DE REGULARIZAÇÃO 內部及調整賬		53,467,407.04
PROVISÕES PARA RISCOS DIVERSOS 各項風險備用金		2,977,506.00
CAPITAL 股本	390,000,000.00	
RESERVA LEGAL 法定儲備	34,123,704.00	
RESERVA ESTATUTÁRIA 自定儲備		
RESERVA DE REVALIAÇÃO 重估儲備	32,661,533.13	
OUTRAS RESERVAS (OBSERVAÇÃO) 其他儲備(附註)	42,701,972.00	499,487,209.13
RESULTADOS TRANSITADOS DE EXERCÍCIOS ANTERIORES 歷年營業結果	113,682,980.08	
RESULTADO DO EXERCÍCIO 本年營業結果	47,291,933.97	160,974,914.05
TOTAIS 總額		6,641,207,811.06

Nota: A rubrica 《Outras Reservas》 está Incluído um valor de MOP42,701,972 de provisões genéricas adicionais constituídas em cumprimento das regras do Aviso No. 18/93-AMCM

附註: - "其他儲備" 項目內包含一筆按照金融管理局第18/93-AMCM號公告規定而增撥之各項風險備用金，金額為澳門元42,701,972元。

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

(2) Operating Profit & Loss

THE MACAU CHINESE BANK LTD.

澳門華人銀行股份有限公司

OPERATING PROFIT & LOSS

FOR THE YEAR ENDED 31 DECEMBER, 2018

營業賬目

截至二零一八年十二月三十一日止

MOP

澳門元

DÉBITO 借方	MONTANTE 金額	CRÉDITO 貸方	MONTANTE 金額
CUSTOS DE OPERAÇÕES PASSIVAS 負債業務成本	92,986,653.93	PROVEITOS DE OPERAÇÕES ACTIVAS 資產業務收益	186,227,265.52
CUSTOS COM PESSOAL 人事費用		PROVEITOS DE SERVIÇOS BANCÁRIOS 銀行服務收益	18,773,619.59
REMUNERAÇÕES DOS ORGÃOS DE GESTÃO E FISCALIZAÇÃO 董事及監察會開支	264,384.90	PROVEITOS DE OUTRAS OPERAÇÕES BANCÁRIAS 其他銀行業務收益	4,575,642.41
REMUNERAÇÕES DE EMPREGADOS 職員開支	38,741,551.53	RENDIMENTOS DE TÍTULOS DE CRÉDITO E DE PARTICIPAÇÕES FINANCEIRAS 證券及財務投資收益	3,349,430.30
ENCARGOS SOCIAIS 固定職員福利		OUTROS PROVEITOS BANCÁRIOS 其他銀行收益	19,232.80
OUTROS CUSTOS COM O PESSOAL 其他人事費用		PROVEITOS INORGÂNICOS 非正常業務收益	6,278,984.49
FORNECIMENTOS DE TERCEIROS 第三者作出之供應	2,000,661.28	PREJUÍZOS DE EXPLORAÇÃO 營業損失	
SERVIÇOS DE TERCEIROS 第三者提供之勞務	20,586,204.00		
OUTROS CUSTOS BANCÁRIOS 其他銀行費用	2,574,251.34		
IMPOSTOS 稅項	4,516,136.93		
CUSTOS INORGÂNICOS 非正常業務費用	314,703.86		
DOTAÇÕES PARA AMORTIZAÇÕES 折舊撥款	5,436,656.38		
DOTAÇÕES PARA PROVISÕES 備用金之撥款	173,789.99		
LUCRO DA EXPLORAÇÃO 營業利潤	51,629,180.97		
TOTAIS 總額	219,224,175.11	TOTAIS 總額	219,224,175.11

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

(3) Profit & Loss Account

THE MACAU CHINESE BANK LTD.

澳門華人銀行股份有限公司

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 2018

損益表

截至二零一八年十二月三十一日止

		MOP 澳門元	
DÉBITO 借方	MONTANTE 金額	CRÉDITO 貸方	MONTANTE 金額
PREJUÍZO DE EXPLORAÇÃO 營業損失		LUCRO DE EXPLORAÇÃO 營業利潤	51,629,180.97
PERDAS RELATIVAS A EXERCÍCIOS ANTERIORES 歷年之損失		LUCROS RELATIVOS A EXERCÍCIOS ANTERIORES 歷年之利潤	
PERDAS EXCEPCIONAIS 特別損失		LUCROS EXCEPCIONAIS 特別利潤	13,200,000.00
DOTAÇÕES PARA IMPOSTOS SOBRE LUCROS DO EXERCÍCIO 營業利潤之稅項撥款		PROVISÕES UTILIZADAS 備用金之使用	
DOTAÇÕES ADICIONAIS PARA PROVISÕES CONFORME RJSF 根據金融體系法律制度增撥的備用金	17,537,247.00		
RESULTADO DO EXERCÍCIO 營業結果	47,291,933.97		
TOTAIS 總額	64,829,180.97	TOTAIS 總額	64,829,180.97

PRESIDENT
YAU WAI CHU
行長
邱慧珠

CHIEF FINANCIAL OFFICER
LIU HUA MEI
財務主管
劉華梅

29 March, 2019, Macao

二零一九年三月二十九日於澳門

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

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

THE MACAU CHINESE BANK LTD.

澳門華人銀行股份有限公司

MEMORANDUM ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2018

備查賬截至二零一八年十二月三十一日止

CONTAS EXTRAPATRIMONIAIS 備查賬	MONTANTE 澳門元 金額
VALORES RECEBIDOS EM DEPÓSITO 代客保管賬	
VALORES RECEBIDOS PARA COBRANÇA 代收賬	
VALORES RECEBIDOS EM CAUÇÃO 抵押賬	6,523,586,414.92
GARANTIAS E AVALES PRESTADOS 保證及擔保付款	106,114,787.23
CRÉDITOS ABERTOS 信用狀	2,350,032.87
ACEITES EM CIRCULAÇÃO 承兌匯票	
VALORES DADOS EM CAUÇÃO 代付保證金	
COMPRAS A PRAZO 期貨買入	
VENDAS A PRAZO 期貨賣出	
OUTRAS CONTAS EXTRAPATRIMONIAIS 其他備查賬	

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

(5) Report from the Board of Directors

Summary of Business Report

In 2018, against the backdrop of complicated, ever-changing international economic and trade environment and increasingly competitive challenges in operating situation, The Macau Chinese Bank Ltd. (“MCB”) firmly adhered to the business policy of "strict corporate governance of the Bank, strengthening talented work force of the Bank, growing with technology of the Bank and service excellence of the Bank". After its risk management structure had been improved and risk control capability had been strengthened, MCB advanced steadily and strengthened its marketing and business innovation, as well as strove to create a new business dimension. With the strong support of all sectors of the community and the dedicated contributions of all the staff of the Bank, the new core banking system was successfully launched and the business performance indicators showed noticeable growth when compared to the previous year, coupled with a steady and consecutive increase in the total asset size and net profit. In terms of core capital, the bank's capital base was further strengthened, resulting in the continuous enhancement of the Bank's core competitiveness. On behalf of the Board of Directors, I would like to express my sincere thanks to the Macau Monetary Authority, people from all sectors of the community, cordial business partners, customers and all diligent and conscientious staff in supporting the development of the Bank.

In 2018, MCB grew its local and mainland China businesses simultaneously. With its “Based in Macau” motto, the Bank fully supported adequate pluralistic development of Macau and strove to provide customers with a wide range of quality services through improvement of its system infrastructure and continuous optimization of its network deployment. In light of the golden opportunities under the Guangdong-Hong Kong-Macau Greater Bay Area development, the Bank will actively pursue cross-border business to support economic development of Macau and Guangdong. The Bank will jointly promote characteristic financial innovation of Macau through the erection of financial industry cooperation platform and establishment of multi-level, multi-dimensional strategic alliance relationships with industry participants. While advancing business development, MCB will continuously strengthen its links with all sectors of Macau, actively

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

(5) Report from the Board of Directors (continued)

participate in various social activities and fulfill its corporate social responsibility.

2019 will be a year of opportunity and challenge. MCB will further deepen its reform and accelerate its transformation and upgrading, speed up its investment and implementation of fintech, enhance its comprehensive financial services capabilities, and continuously support the development of local industries as before. The Bank will also develop its own features, promote characteristic financial development of Macau, assist in the nation's "One Belt One Road" initiative and the Guangdong-Hong Kong-Macau Greater Bay Area development and seek to contribute to Macau's economic prosperity and development.

Chairman of the Board

Ye Shaokun

29 March 2019, Macao

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

(6) Report from the Supervisory Board

Report of the Supervisory Board

In 2018, owing to its continuous effort in monitoring and following up with the overall operations and business activities of the Bank and the frequent contact with the Board of Directors, the Supervisory Board was able to achieve better information and cooperation from the Board to perform its supervisory function over the Bank in an effective and efficient manner.

In view of this, the Supervisory Board agrees that the financial accounts and reports for the year of 2018 submitted by the Board should be presented to the Shareholders' General Assembly for approval.

Chairman of Supervisory Board

Tang Yuhong

29 March 2019, Macao

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

(7) Summary of the External Auditors' Report

Independent Auditor's Report

To the shareholders of The Macau Chinese Bank Limited

(Incorporated in Macao with limited liability)

We have audited the financial statements of The Macau Chinese Bank Limited (the "Bank") set out on pages 3 to 41, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards promulgated by the Macao Special Administrative Region ("Macao Financial Reporting Standards"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

We conducted our audit in accordance with Auditing Standards and Technical Auditing Standards of the Macao Special Administrative Region. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Macao Financial Reporting Standards.

Bao, King To

Registered Auditor

Ernst & Young

29 March 2019, Macao

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

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

-NIL

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

(9) List of Shareholders with Qualifying Holdings

SHAREHOLDERS:

Nam Yue (Group) Company Limited (Set up in Macau)

Winwise Holdings Limited (Set up in Hong Kong)

Wong Garrick Jorge Kar Ho

Yang Jun

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

(10) Names of the Members of the Company Boards

SHAREHOLDERS' GENERAL MEETING:

Zhou Xingting (On behalf of Nam Yue (Group) Company Limited)

Lee Luen Wai, John (On behalf of Winwise Holdings Limited)

Wong Garrick Jorge Kar Ho

Yang Jun

Secretary: Yau Wai Chu

SUPERVISORY BOARD:

Chairman: Tang Yuhong

Members: Chan Nim Leung, Leon

Chui Sai Cheong (Resigned on 1 March 2018)

CSC & Associados-Sociedade de Auditores (Appointed on 1 March 2018 and represented by Mr.

Chui Sai Cheong)

BOARD OF DIRECTORS:

Chairman: Ye Shaokun

Executive Director: Yau Wai Chu

Directors: Chan Tat Kong

Ng Tai Chiu, David

Wong Garrick Jorge Kar Ho (Appointed on 10 April 2018)

Yang Jun

Cheng Sai Chong

Secretary: Yau Wai Chu (Resigned on 1 February 2018)

Cheng Sai Chong (Appointed on 1 February 2018)

29 March 2019, Macao

2. Corporate Governance

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

Responsibilities of the Shareholders' General Meeting

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

Responsibilities of the Supervisory Board

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

Responsibilities of the Board of Directors

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

3. Cash Flow Statement

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	2018	2017
	MOP	MOP
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	70,182,388	57,031,917
Adjustments for:		
Depreciation	6,115,414	3,989,123
Amortisation of discount on debt securities	192,789	507,404
Unrealised foreign exchange differences relating to available-for-sale securities	(382,725)	(1,703,463)
Impairment allowances (reversed)/provided for impaired assets, net	539,893	(412,037)
Changes in fair value of investment properties	(15,000,000)	(19,000,000)
Loss/(gain) on disposals of available-for-sale investments	790,133	(424,682)
Write-off of items of property and equipment	78,323	-
	<u>62,516,215</u>	<u>39,988,262</u>
Increase in loans and advances to customers	(1,764,750,686)	(1,398,648,892)
Decrease/(increase) in receivables and other assets	33,787,363	(40,342,556)
Increase in deposits from other banks	54,790,700	227,591,300
Increase in deposits from customers	1,901,344,874	2,056,829,469
Increase in payables and other liabilities	23,660,804	19,508,404
Net cash flows from operating activities	<u>311,349,270</u>	<u>904,925,987</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of a held-to-maturity investment	(50,000,000)	-
Purchases of items of property and equipment	(22,818,817)	(21,509,666)
Proceeds from disposal of available-for-sale investments	<u>26,712,000</u>	<u>40,075,690</u>
Net cash flows from/(used in) investing activities	<u>(46,106,817)</u>	<u>18,566,024</u>

3. Cash Flow Statement (continued)

Year ended 31 December 2018

	2018 MOP	2017 MOP
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in advance from a shareholder	-	72,800,000
Proceeds from issue of shares	<u>57,200,000</u>	<u>-</u>
Net cash flows from financing activities	<u>57,200,000</u>	<u>72,800,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	322,442,453	996,292,011
Cash and cash equivalents at beginning of year	<u>1,432,265,608</u>	<u>435,973,597</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>1,754,708,061</u></u>	<u><u>1,432,265,608</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and balances with banks	621,604,993	656,438,260
Deposits with Monetary Authority	139,607,068	191,262,648
Placements with other banks with original maturity		
within three months	<u>993,496,000</u>	<u>584,564,700</u>
	<u><u>1,754,708,061</u></u>	<u><u>1,432,265,608</u></u>



The Macau Chinese Bank Ltd.

Prepared as per

AMCM's guidelines dated 16/11/2012(Circular no.026/B/2012-DSB/AMCM)

4. Derivatives Transactions

-No such transactions-

5. Accounting Policies

Summary of Significant Accounting Policies

Fair Value Measurement

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

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

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

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

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

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

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

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

5. Accounting Policies (continued)

Impairment of Non-financial Assets

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

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

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

Related Parties

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

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

(1) has control or joint control over the Bank;

(2) has control or joint control over the Bank;

(3) is a member of the key management personnel of the Bank or of a parent of the Bank;

or

5. Accounting Policies (continued)

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

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

Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciation.

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

Land and building	100 years
Furniture, fixtures and equipment	3 to 10 years
Computer equipment	3 to 8 years
Motor vehicles	10 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives

5. Accounting Policies (continued)

and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Investment Property

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

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

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

If a property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under "Property and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as an asset revaluation reserve. On disposal of the asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to the retained profits as a movement in reserves.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Bank is the lessor, assets leased by the Bank under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the

5. Accounting Policies (continued)

statement of profit or loss on the straight-line basis over the lease terms. Where the Bank is the lessee, rentals payable under the operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

Investments and other Financial Assets

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

Loans and receivables

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

Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held

5. Accounting Policies (continued)

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

Available-for-sale Investments

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

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

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

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

5. Accounting Policies (continued)

Derecognition of Financial Assets

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

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

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

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Bank first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually

5. Accounting Policies (continued)

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

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

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

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

Available-for-sale Financial Investments

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

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been

5. Accounting Policies (continued)

below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss - is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

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

Financial Liabilities

Initial Recognition and Measurement

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

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

The Bank's financial liabilities include deposits from other banks, deposits from customers, payables and other liabilities and advance from a shareholder.

Subsequent Measurement of Loans and Borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the

5. Accounting Policies (continued)

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

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

Derecognition of Financial Liabilities

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

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

Offsetting of Financial Instruments

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

Cash and Cash Equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past

5. Accounting Policies (continued)

event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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

Income Tax

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

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

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

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

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

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

5. Accounting Policies (continued)

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

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

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

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

Revenue Recognition

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

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

Retirement Benefits Scheme

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

5. Accounting Policies (continued)

Foreign Currencies

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

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

6. Related Party Transaction

(1) Qualitative Disclosure

Definition of Related Parties

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

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

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

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

6. Related Party Transaction

(2) Quantitative Disclosures

Transactions and Outstanding Balances

RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2018 and at the end of reporting period, the Bank had the following material transactions and balances with related parties:

	Notes	2018 MOP	2017 MOP
Received/receivable from or (paid)/(payable) to related companies:			
Commission income	(i)	618,727	512,376
Fee income	(ii)	266,348	782,881
Fee expense	(iii)	(282,922)	(268,652)
Receivables and other assets	(iv)	3,271,795	9,019,134
Loans and advances	(v)	4,635,000	4,635,000
Rental expense	(vi)	5,924,710	2,242,196
Service fee	(vii)	<u>3,490,428</u>	<u>2,404,362</u>
Deposits from customers:			
Directors of the Bank		15,286,464	313,403
Members of key management of the Bank		<u>143,982,224</u>	<u>76,910,331</u>

6. Related Party Transaction

(2) Quantitative disclosures(continued)

RELATED PARTY TRANSACTIONS (continued)

(a) Notes:

- (1) Commission income was charged based on the actual costs incurred for the provision of securities dealing services by the Bank.
- (2) Fee income was charged based on the actual costs incurred for the handling of administration work.
- (3) Fee expense was charged at 0.045% (2017: 0.045%) on the gross amount of each securities trading transaction
- (4) Balance mainly represented deposits for securities trading placed with a related company.
- (5) Balance represented a loan to a related company, which is unsecured and bears interest at 3-month Hong Kong Interbank Offered Rate plus 4.7% per annum (2017: 4.7% per annum).
- (6) Balance represented rental expenses paid for the lease of office properties.
- (7) Service fee was charged based on the actual costs incurred for the provision of consultation services.

(b) The balance with a shareholder represented a payment for a proposed share allotment of ordinary shares, which is unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Bank

	2018	2017
	MOP	MOP
Short term employee benefits	4,446,790	4,225,809

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

7. Capital

(1) Qualitative Disclosure

According to monthly Statistics of the Bank, the Board of Directors monitor the ratio to comply with the FSAM's requirement, i.e. not less than 8%.

(2) Quantitative Disclosure-components of own funds & solvency ratio

(a) Issued Capital

	2018	2017
	MOP	MOP
Authorised		
5,000,000(2017: 5,000,000) shares of MOP100 each	<u>500,000,000</u>	<u>500,000,000</u>
Issued and fully paid:		
3,900,000 shares (2017: 2,600,000) of MOP100 each	<u>390,000,000</u>	<u>260,000,000</u>

(b) Components of own funds

	2018
	'000MOP
EQUITY	
Issued capital	390,000
Legal reserve	34,124
General Provision	45,679
Retained profits	113,683
Current year net profit	<u>47,292</u>
Total equity	<u>630,778</u>

(c) Capital Adequacy Ratio = 14.42 %

(d) Operational Risk Adjusted Solvency Ratio:

Own Funds	Weighted Operational Risk Exposures	Weighted Credit Risk Exposures	Weighted Market Risk Exposures	Operation Risk Adjusted Solvency Ratio (%)
(A)	(B)	(C)	(D)	(A)/[(B)+(C)+(D)]
630,778.10	160,344.48	4,163,494.54	50,489.00	14.42%

8. Solvency ratio

Quantitative – capital adequacy ratio of top consolidated group and its significant bank subsidiaries

-Not applicable-

9. Credit Risk

(1) Qualitative Disclosure - Credit Risk Management

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

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

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

In accordance with the guidelines of AMCM with respect to the classification of loan portfolio, non-performing accounts shall be classified by taking into account the period after the respective maturity, in the following manner:

- (a) Group I - up to 3 months;
- (b) Group II - over 3 months and less than or equal to 12 months;
- (c) Group III - over 12 months and less than or equal to 18 months;
- (d) Group IV - over 18 months

A minimum specific provision shall be set up for all non-performing accounts based on their respective balances net of the realisable value of any existing and duly formalised tangible collateral at each quarter ended in the following manner:

Group Accumulated provision

II 40%

III 80%

IV 100%

9. Credit Risk (continued)

(2) Quantitative Disclosure

Year ended 31 December 2018

	On demand MOP\$'000	3 months or less MOP\$'000	1 year or less but over 3 months MOP\$'000	5 years or less but over 1 year MOP\$'000	Over 5 years MOP\$'000	Undated MOP\$'000	Total MOP\$'000
<u>Financial assets</u>							
Cash and balances with banks	621,605	-	-	-	-	-	621,605
Deposits with Monetary Authority	139,607	-	-	-	-	-	139,607
Placements with other banks	-	993,496	-	-	-	-	993,496
Loans and advances to customers	520,603	576,793	716,374	986,836	1,703,106	-	4,503,712
Financial assets included in receivables and other assets	5,649	9,040	22,754	-	-	-	37,443
Available-for-sale investments	-	2,184	-	33,425	4,906	-	40,515
Held-to-maturity investment	-	-	-	50,000	-	-	50,000
	<u>1,287,464</u>	<u>1,581,513</u>	<u>739,128</u>	<u>1,070,261</u>	<u>1,708,012</u>	<u>-</u>	<u>6,386,378</u>
<u>Financial liabilities</u>							
Deposits from other banks	-	236,032	46,350	-	-	-	282,382
Deposits from customers	764,208	3,049,546	1,595,825	198,124	-	-	5,607,703
Financial liabilities included in payables and other liabilities	-	5,617	39,691	-	-	-	45,308
	<u>764,208</u>	<u>3,291,195</u>	<u>1,681,866</u>	<u>198,124</u>	<u>-</u>	<u>-</u>	<u>5,935,393</u>
Net liquidity gap	<u>523,256</u>	<u>(1,709,682)</u>	<u>(942,738)</u>	<u>872,137</u>	<u>1,708,012</u>	<u>-</u>	<u>450,985</u>

9. Credit risk (continued)

	Industry Distribution	Geographic Distribution (in '000 MOP)	
		Residents	Non-Residents
1.	Mining industries	-	39,140
2.	Clothing	74,440	-
3.	Leather articles	6,589	-
4.	Other manufacturing industries	31,801	97,350
5.	Electricity, Gas and Water	-	92,700
6.	Private Construction	494,523	118,450
7.	Wholesale and retails trade	250,846	139,972
8.	Restaurants, Hotels and Similar	60,730	-
9.	Information technology	88,164	103,000
10.	Non-monetary financial institutions	-	118,932
11.	Other industries	563,191	1,208,307
12.	Personal housing loans	533,876	27,071
13.	Personal credit for other purposes	476,784	14,037
	Total	2,580,944	1,958,959

Past Due Assets

- Group I (i.e. up to 3 months) according to Notice no.18/93-AMCM

Type	Overdue time	Amount(in '000 MOP)
Loans & Trade Financing	<3M	18,998

10. Market risk

Market Risk Management Objectives and Policies

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

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

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

11. Interest Rate Risk

(1) Qualitative Disclosure

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

The Bank manages its interest rate risk by:

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

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

Interest rate change 200 basic points to the following items:

2018	Own fund	Profit	Equity
1 st Quarter	16.72%	646.21%	28.14%
2 nd Quarter	16.57%	741.11%	24.29%
3 rd Quarter	19.43%	775.65%	28.99%
4 th Quarter	20.77%	276.97%	33.59%

12. Operational Risk

Operational Risk Management Objectives and Policies

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

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

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

13. Foreign Exchange Risk

(1) Risk Management Objectives and Policies

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

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

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

(2) Total Net Long and Net Short Positions in Foreign Currencies

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

	2018
	<u>MOP'000 Equivalent</u>
HKD	(38,183)
CNY	8,422
USD	262,116
Others	(1,593)

-Forward sales position

-NIL-

14. Liquidity Risk

(1) Qualitative Disclosure

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

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

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

14. Liquidity Risk(continued)

(2) Quantitative Disclosure

<1> Average weekly liquidity	For the year Ended 31 Dec 2018 <u>(in '000 MOP)</u>
Minimum requirement of cash in hand	84,047
Average weekly amount of cash in hand	436,676

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

<2> Average solvency assets	For the year Ended 31 Dec 2018 <u>(in '000 MOP)</u>
Specified liquid assets	3,011,482
Basic liabilities	5,019,713
Ratio of solvency assets to basic liabilities	59.99%

<3> Average liquidity ratio	For the year Ended 31 Dec 2018
One-month liquidity ratio	143%
Three-month liquidity ratio	89%

15. Other Information

Operating Lease Commitments

<1> As Lessor

During the year ended 31 December 2018, the Bank leases its investment property to an independent third party under operating lease arrangements, with remaining lease terms of less than one year (2017: one year).

At the end of reporting period, the Bank had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	2018	2017
	MOP	MOP
Within one year	<u>806,500</u>	<u>806,500</u>

<2> As Lessee

The Bank leases a portion of its office properties under operating lease arrangements with remaining lease terms of one to four years (2017: one year). At the end of reporting period, the Bank had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	MOP	MOP
Within one year	4,516,599	5,336,011
In the second to fifth years, inclusive	<u>4,845,000</u>	<u>9,142,400</u>
	<u>9,361,599</u>	<u>14,478,411</u>