



The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

Prepared as per

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

財務訊息披露是根據金管局於16/11/2012發出的指引（傳閱文件第026/B/2012-DSB/AMCM號）而制定

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## **The Macau Chinese Bank Limited**

### **Disclosure of Financial Information**

### **For the year ended 31 December 2021**

Index for Disclosure of Financial Information	Page No.
1. Article ° 75(1) of FSAM (Financial System Act of Macau)	
(1) Balance Sheet	4-5
(2) Statement of Profit or Loss	6-7
(3) Off-balance-sheet Exposures other than Derivatives Transactions	8
(4) Summary of the Business Report	9-11
(5) Report of the Supervisory Board	12
(6) Summary of the External Auditors' report	13-14
(7) List of Institutions with more than 5% Interests	15
(8) List of shareholders with Qualifying Holdings	16
(9) Names of the Members of the Company Boards	17-18
2. Corporate Governance	19
3. Cash Flow Statement	20-21
4. Derivatives Transactions	22
5. Significant Accounting Policies	23-37
6. Financial Reporting Standards	38-40
7. Related Party Transactions	41-43
(1) Qualitative Disclosure - Policy for Lending to Related Parties	
(2) Quantitative Disclosure - Transactions and Outstanding Balances	
8. Capital	44-46
(1) Qualitative Disclosure	
(2) Quantitative Disclosure	
<1> Components of own Funds & Solvency Ratio	
<2> Capital Adequacy Ratio of Top Consolidated Group & its Significant Bank Subsidiaries	

9. Credit Risk	
(1) Qualitative Disclosure - Credit Risk Management	47
(2) Quantitative Disclosure	48-51
<1> Maturity Analysis	
<2> Industry Distribution	
<3> Geographic Distribution	
<4> Past Due Assets	
10. Market Risk	52
Quantitative - capital requirements for interest rate risk, equity position risk, foreign exchange risk and commodity risk	
11. Interest Rate Risk	53
(1) Qualitative Disclosure	
(2) Quantitative Disclosure - Increase/Decline in Earnings or Economic Value on Rate Shocks	
12. Operational Risk	54
Operational Risk Management Objectives and Policies	
13. Foreign Exchange Risk	55
(1) Risk Management Objectives and Policies	
(2) Qualitative Disclosure	
<1> Total Net Long and Net Short Positions in Foreign Currencies	
<2> Forward Sales Position	
14. Equity Position Risk	56
15. Commodity Risk	57
16. Liquidity Risk	58-59
(1) Qualitative Disclosure	
(2) Quantitative Disclosure	
17. Other Information	60

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## 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 AS AT 31 DECEMBER 2021

資產負債表於二零二一年十二月三十一日

MOP

澳門元

Assets 資產	Gross Assets 資產總額	Provison Amortization and Depreciation 備用金, 折舊和減值	Net Assets 資產淨額
Cash 現金	132,598,313.82	-	132,598,313.82
Deposit with AMCM AMCM存款	993,780,236.64	-	993,780,236.64
Accounts receivables 應收賬項			
Current deposits with local credit institutions 在本地之其他信用機構活期存款	795,470,271.35	-	795,470,271.35
Current deposits with foreign credit institutions 在外地之其他信用機構活期存款	684,287,967.63	-	684,287,967.63
Gold and Silver 金、銀			
Other current assets 其他流動資產			
Loans and advances to customers 放款	7,904,739,496.24	7,052,629.37	7,897,686,866.87
Placements with local credit institutions 在本澳信用機構拆放	1,196,570,000.00	-	1,196,570,000.00
Call and time deposits with overseas credit institutions 在外地信用機構之通知及定期存款	384,147,500.00	-	384,147,500.00
Shares, bonds and equity 股票、債券及股權	720,409,629.03	-	720,409,629.03
Application of resources consigned to the Bank 承銷資金投資			
Debtors 債務人	45,234,733.91	-	45,234,733.91
Other investments 其他投資			
Financial investment 財務投資			
Immovable properties 不動產	225,399,861.72	2,905,022.97	222,494,838.75
Equipments 設備	118,440,338.10	45,360,754.98	73,079,583.12
Deferered expenses 遞延費用			
Organization expenses 開辦費用			
Immovable properties in progress 未完成不動產			
Other fixed assets 其他固定資產			
Internal and adjustment accounts 內部及調整賬	82,934,809.15	-	82,934,809.15
Total 總額	13,284,013,157.59	55,318,407.32	13,228,694,750.27

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

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

### (1) Balance Sheet (continued)

**THE MACAU CHINESE BANK LTD.**

澳門華人銀行股份有限公司

BALANCE SHEET AS AT 31 DECEMBER, 2021

資產負債表於二零二一年十二月三十一日

Liabilities 負債	Sub-total 小結	MOP 澳門元 Total 總額
Current deposits 活期存款	1,141,958,331.62	
Call deposits 通知存款		
Time deposits 定期存款	9,159,972,793.87	
Deposits from public sectors 公共機構存款	508,118,764.66	10,810,049,890.15
Placement from local credit institutions 本地信用機構資金	756,730,700.00	
Placement from other local entities 其他本地機構資金	-	
Foreign currency debts 外幣借款	125,950,000.00	
Debentures 債券借款	180,000,000.00	
Creditors of applications & resources consigned to the Bank 承銷資金債權人		
Cheques and bills payable 應付支票及票據	7,471,698.86	
Creditors 債權人	36,010,273.49	
Other liabilities 各項負債	-	1,106,162,672.35
Internal and adjustment accounts 內部及調整賬		131,192,524.13
Provision for risks 各項風險備用金		7,915,756.19
Capital 股本	800,000,000.00	
Legal reserve 法定儲備	57,572,295.24	
Self-constituted reserve 自定儲備		
Revaluation reserve 重估儲備	40,930,191.50	
Other reserves (See note listed below) 其他儲備(附註)	75,928,685.00	974,431,171.74
Retained earnings 歷年營業結果	145,248,673.64	
Profit for the year 本年營業結果	53,694,062.07	198,942,735.71
Total 總額		13,228,694,750.27

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

備註: - "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 75,928,685元。

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

### (2) Statement of Profit or Loss

#### THE MACAU CHINESE BANK LTD.

#### 澳門華人銀行股份有限公司

#### INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

營業帳目

截至二零二一年十二月三十一日止

			MOP 澳門元
Debit 借方	Amount 金額	Credit 貸方	Amount 金額
Costs of credit operations 負債業務成本	189,884,728.69	Income from credit operations 資產業務收益	336,738,001.69
Personnel costs 人事費用		Income from banking services 銀行服務收益	1,193,552.20
Remuneration of Board of Directors and Supervisory Committee 董事及監察會開支	307,384.00	Income from other banking operations 其他銀行業務收益	32,383,121.17
Employee salaries and wages 職員開支	53,215,432.03	Income from securities and equity investments 證券及財務投資收益	(3,654,683.06)
Staff benefit 固定職員福利		Other banking income 其他銀行收益	811,227.97
Other personnel costs 其他人事費用		Income from non-banking operations 非正常業務收益	5,620,356.00
Cost of third party supply 第三者作出之供應	3,547,692.06	Operation loss 營業損失	
Cost of third party services 第三者提供之勞務	33,751,641.75		
Other banking costs 其他銀行費用	6,096,339.99		
Taxation 稅項	(814,235.38)		
Cost of non-banking operations 非正常業務費用			
Depreciation allowances 折舊撥款	19,568,377.00		
Provision allowances 備用金之撥款	2,556,595.63		
Operating profit 營業利潤	64,977,620.20		
Total 總額	373,091,575.97	Total 總額	373,091,575.97

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澳門華人銀行股份有限公司

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

### (2) Statement of Profit or Loss (continued)

**THE MACAU CHINESE BANK LTD.**

澳門華人銀行股份有限公司

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2021

損益表

截至二零二一年十二月三十一日止

MOP

澳門元

Debit 借方	Amount 金額	Credit 貸方	Amount 金額
Operating loss 營業損失		Operating profit 營業利潤	64,977,620.20
Loss related to previous year 歷年之損失		Profit related to previous year 歷年之利潤	
Exceptional loss 特別損失		Exceptional profits 特別利潤	
Profit tax provision 營業利潤之稅項撥款	1,118,971.95	Provision used up 備用金之使用	
Additional provision in accordance with Financial System Act 根據金融體系法律制度增撥的備用金	10,164,586.18		
Profit for the year 營業結果	53,694,062.07		
TOTAL 總額	64,977,620.20	TOTAL 總額	64,977,620.20

PRESIDENT

行長

YAU WAI CHU

邱慧珠

CHIEF FINANCIAL OFFICER

財務總監

VU SIO VAI

胡兆威

31 March, 2022, Macao

二零二二年三月三十一日於澳門

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

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

### (3) 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 AS AT 31 DECEMBER, 2021

備查賬於二零二一年十二月三十一日

Memorandum Items 備查賬	MOP 澳門元 Amount 金額
Values received for custody 代客保管賬	60,480,207.00
Values received for collection 代收賬	
Values as collateral 抵押賬	8,606,153,466.42
Bank guarantees 保證及擔保付款	739,786,223.28
Letters of credit issued 信用狀	3,478,816.69
Acceptances 承兌匯票	
Values deposited by the Bank as collateral 代付保證金	
Forward exchange contracts - purchases 期貨買入	
Forward exchange contracts - sales 期貨賣出	
Other memorandum items 其他備查賬	163,835,507.40

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

### (4) Summary of Business Report

#### Summary of Business Report

In 2021, the continuous spreading of the COVID-19 epidemic in many countries had led to the global geopolitical and macroeconomic forecast remained in a complex and unpredictable situation. In this respect, the economic recovery of Macao had been facing great uncertainty. Notwithstanding the difficult conditions, all staffs of The Macau Chinese Bank cohered their strength and firm desire to face the challenging environment aiming to achieve "prudent and sound operation, business opportunities exploration, system and structure enhancement, as well as effective risk management control". In return, all key tasks of the Bank had been carried out solidly and orderly with remarkable and encouraging results. In this connection, the Bank showed an upward trend in both overall performance and business development:

- Strict adherence to prudent and sound banking practices in business operation, continuous capital injection to achieve a solid foundation for business development. During the year, the registered capital was increased to 800 million Macau Pataca, which effectively enhanced the core competitiveness and anti-risk ability of the Bank, and also demonstrated the strong confidence and support of the shareholders in the development of the Bank.
- To explore continuously business opportunities, to expand the branch network to generate more business development channels. The setup of Dynasty Branch in the core business district of Macao had changed the Branch's business strategy which focusing on traditional retail banking model to also cover the corporate banking business and with new and satisfactory breakthroughs, and due to the continuous optimizing of the business network layout, the Bank had also achieved a significant enhancement in its service capabilities.

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

### (4) Summary of Business Report (continued)

- The planning of system and structure enhancement, cost reduction and profit increasing, optimizing business re-allocation strategy. Notwithstanding the negative constraints arising from the external environment during the year, the Bank was able to seek changes while maintaining stability, take initiative to respond to the change of business environment, actively adjust and optimize the business structure, reduce significantly the business costs, develop effectively the intermediate banking service business, which resulting to a remarkable improvement of profitability of the Bank.
- To define intensively all possible risk factors to strengthen the risk control management. To strictly adhere to the bottom-line thinking to prepare for a worse scenario situation, improve safe production awareness while implementing precise and targeted epidemic control measures, keep carrying on the improvement of the internal organization structure and mechanism to give a strong support and backup to the business continuity plan in a steady and sound effective manner.

In 2021, the Bank with its utmost ability and strong desire, had moved forward and strived for creation of best value to its customers, considerable profit returns to shareholders, good future prospect to employees, good wealth to social communities, and a solid foundation for the persistent sound business development to the Bank. Hereby, on behalf of the Board of Directors, I would like to express my heartfelt thanks to the Macau Monetary Authority, business partners, all sectors of society and all employees who have been supporting the development of The Macau Chinese Bank!



The Macau Chinese Bank Ltd.

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

### (4) Summary of Business Report (continued)

In 2022 onward, the Bank will firmly grasp the business opportunities of the innovative scheme “Dual Region” with cheering up spirit and ability as well as professional experience towards its commitment in the vision of "basing itself in Macao and crossing the Greater Bay Area, aiming to build a high-quality international commercial bank within the area with independent brand features among the industry” without any hesitation!

Executive Director

Yau Wai Chu

31 March 2022, Macao

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

### (5) Report from the Supervisory Board

#### Report of the Supervisory Board

In 2021, 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.

After having reviewed and analyzed the Bank's Financial Statements of 2021, the Supervisory Board is of the opinion that the statements reflect clearly and truly the assets and liabilities, the economic and financial position of the Bank.

In view of this, the Supervisory Board agrees that the financial accounts and reports for the year of 2021 submitted by the Board should be presented to the Shareholders' Annual General Meeting for approval.

Supervisory Board

Zhou Hao

31 March 2022, Macao

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

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

#### Independent Auditor's Report

To the shareholders of The Macau Chinese Bank Limited

(Incorporated in Macao with limited liability by shares)

We have audited the financial statements of The Macau Chinese Bank Limited (the "Bank") set out on pages 3 to 45, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

#### Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards promulgated by the Macao Special Administrative Region under the Administrative Regulation No. 25/2005 ("Macao Financial Reporting Standards"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

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

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

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

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

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

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

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Macao Financial Reporting Standards.

BAO King To, CPA

Ernst & Young

Certified Public Accountants

31 March 2022, Macao



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

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

NIL

The Macau Chinese Bank Ltd.

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

### (8) List of Shareholders with Qualifying Holdings

#### SHAREHOLDERS:

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

Wong Garrick Jorge Kar Ho (18%)

Ho Hon Cheong (9%)

Ho Hon Kong (9%)

Lam Ka Vai Carlos (8%)

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

### (9) Names of the Members of the Company Boards

#### SHAREHOLDERS' GENERAL MEETING

Chairman: Nam Yue (Group) Company Limited

Members: Wong Garrick Jorge Kar Ho

Ho Hon Cheong

Ho Hon Kong

Lam Ka Vai Carlos

Secretary: Cheng Sai Chong (Resigned on January 1, 2021)

Yu Peihuan (Appointed on January 1, 2021)

#### SUPERVISORY BOARD:

Chairman: Zhou Hao

Members: Chan Nim Leung, Leon (Resigned on January 1, 2021)

CSC & Associados-Sociedade de Auditores (Represented by Chui Sai Cheong)

Chui Calvin Tinlop (Appointed on March 26, 2021)

#### BOARD OF DIRECTORS:

Chairman: Ye Shaokun (Resigned on December 31, 2021)

Acting Chairman: Yau Wai Chu (Appointed on December 31, 2021)

Executive Directors: Yau Wai Chu

Chan Tat Kong (Appointed on January 1, 2021)

Li Rongzhou (Appointed on December 31, 2021)

Directors: Wong Garrick Jorge Kar Ho

Cheng Sai Chong

Ng Tai Chiu, David (Resigned on January 1, 2021)

Yang Jun (Resigned on January 1, 2021)

Ho Hon Kong (Appointed on March 26, 2021)

Lam Ka Vai Carlos (Appointed on March 26, 2021)

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

### **(9) Names of the Members of the Company Boards (continued)**

Secretary: Cheng Sai Chong (Resigned on January 1, 2021)

Yu Peihuan (Appointed on January 1, 2021)

31 March 2022, Macao

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## 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.

### Responsibilities of the Executive Committee

With the delegated authority by the Board, the Executive Committee is accountable and reported to the Board. The main responsibility of the Executive Committee is to oversee the overall operations of the Bank, supervise the implementation of business and investment plans as approved by the Board, and formulate clear policies and procedures guidelines in accordance with the regulatory requirements.

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澳門華人銀行股份有限公司

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### 3. Cash Flow Statement

Year ended 31 December 2021

	2021 MOP	2020 MOP
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	63,755,459	28,271,263
Adjustments for:		
Depreciation	19,568,377	13,292,997
Amortisation of discount on debt securities	954,097	591,825
Unrealised foreign exchange differences relating to available-for-sale securities and held-to-maturity investments	(4,032,785)	(1,728,551)
Impairment allowances provided for impaired assets, net	2,556,596	3,682,339
Changes in fair value of investment properties	-	(9,100,000)
Loss on disposals of available-for-sale investments	3,538,316	1,753
Loss on disposal of held-to-maturity investments	1,967,501	1,498,858
Write-off of items of property and equipment	-	13,532
	<u>88,307,561</u>	<u>36,524,016</u>
Increase in loans and advances to customers	(1,079,296,426)	(1,210,487,058)
Decrease/(increase) in receivables and other assets	57,758,660	(73,777,265)
Increase in deposits from banks	882,680,700.00	-
(Decrease)/increase in deposits from customers	(286,226,131)	1,164,353,102
(Decrease)/increase in payables and other liabilities	(79,974,472)	85,753,285
Net cash flows from operating activities	<u>(416,750,108)</u>	<u>2,366,080</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of held-to-maturity investments	(315,073,164)	(553,231,995)
Purchases of available-for-sale investments	(267,474,552)	(126,885,202)
Purchases of items of property and equipment	(13,606,173)	(56,147,444)
Proceeds from disposal of available-for-sale investments	177,599,976	36,073,725
Proceeds from redemption of monetary bills with Monetary Authority	1,380,000,000	-
Purchases of monetary bills with Monetary Authority	-	(910,000,000)
Proceeds from disposal of held-to-maturity investments	400,599,352	194,251,884
Net cash flows used in investing activities	<u>1,362,045,439</u>	<u>(1,415,939,032)</u>

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

Prepared as per

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

財務訊息披露是根據金管局於16/11/2012發出的指引(傳閱文件第026/B/2012-DSB/AMCM號)而制定

### 3. Cash Flow Statement (continued)

Year ended 31 December 2021

	2021	2020
	MOP	MOP
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	200,000,000	210,000,000
Dividends paid	(62,228,671)	-
Net cash flows from financing activities	<u>137,771,329</u>	<u>210,000,000</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,083,066,660</b>	<b>(1,203,572,952)</b>
Cash and cash equivalents at beginning of year	<u>3,103,787,630</u>	<u>4,307,360,582</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>4,186,854,290</u></b>	<b><u>3,103,787,630</u></b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and balances with banks	2,771,141,553	2,017,997,346
Deposits with Monetary Authority	993,780,237	197,702,284
Placements with other banks with original maturity within three months	<u>421,932,500</u>	<u>888,088,000</u>
	<u>4,186,854,290</u>	<u>3,103,787,630</u>



澳門華人銀行  
Macau Chinese Bank

*The Macau Chinese Bank Ltd.*

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#### **4. Derivatives Transactions**

NIL

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## 5. Significant 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

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## 5. Significant Accounting Policies (continued)

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

### Impairment of Non-Financial Assets

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

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.

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## 5. Significant Accounting Policies (continued)

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

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

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

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

- (1) the entity and the Bank are members of the same group;
- (2) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (3) the entity and the Bank are joint ventures of the same third party;
- (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (5) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
- (6) the entity is controlled or jointly controlled by a person identified in (a);
- (7) a person identified in (a)(1) 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 depreciates them accordingly

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## 5. Significant Accounting Policies (continued)

### Property and equipment and depreciation (continued)

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

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

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

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Investment Property

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

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

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

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## 5. Significant Accounting Policies (continued)

### Investment Property (continued)

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

### Leases

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

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

### Investments and other Financial Assets

#### 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.

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## 5. Significant Accounting Policies (continued)

### Investments and other Financial Assets (continued)

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

#### Held-to-maturity Investments

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

#### 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.

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## 5. Significant Accounting Policies (continued)

### Available-for-sale Investments(continued)

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

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

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

### Derecognition of Financial Assets

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.

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## 5. Significant Accounting Policies (continued)

### Derecognition of Financial Assets (continued)

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 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.

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## 5. Significant Accounting Policies (continued)

### Financial assets carried at amortised cost (continued)

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.

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## 5. Significant Accounting Policies (continued)

### Available-for-sale Financial Investments (continued)

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

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

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

### Financial Liabilities

#### Initial Recognition and Measurement

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

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

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## 5. Significant Accounting Policies (continued)

### Financial Liabilities(continued)

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

#### Subsequent Measurement of Loans and Borrowings

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

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

#### 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.

## 5. Significant Accounting Policies (continued)

### Cash and Cash Equivalents

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

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

### Provisions

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

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

### Income Tax

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

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

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

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## 5. Significant Accounting Policies (continued)

### Income Tax (continued)

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

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

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

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

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

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

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## 5. Significant Accounting Policies (continued)

### Income Tax (continued)

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.

### 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.

## 5. Significant Accounting Policies (continued)

### Foreign Currencies(continued)

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).

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## 6. Financial Reporting Standards

The Bank will adopt the New MFRSs from 1 January 2022 onward. Among the New MFRSs, IFRS 9 is expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Bank. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Bank at the time of applying the standards.

The standard introduces requirements for classification and measurement, impairment and hedge accounting. Upon adoption of IFRS 9, the Bank will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2022. During 2021, the Bank has performed a detailed assessment of the impact of the adoption of IFRS 9. The adoption of IFRS 9 is expected to decrease net assets at 1 January 2022 by MOP121 million, with changes in classification and measurement requirements reducing net assets by MOP12 million and changes in impairment requirements reducing net assets by MOP109 million, all net of tax. After applying regulatory transitional arrangement, the Bank's total capital adequacy ratio is expected to remain at 17%. The above overall financial impact is subject to change of assumptions, judgement and estimates to be finalised in the accounts of 2022. The changes introduced in IFRS 9 for each of the aspects are summarised as follows:

### Classification and measurement

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

## 6. Financial Reporting Standards (continued)

### Classification and measurement (continued)

The Bank has performed a detailed analysis on financial assets and financial liabilities. As a result, the Bank will reclassify its financial assets based on its business model and the contractual cash flow characteristics of financial assets. The difference arising from the initial application of new classification and measurement requirements will be recognised in retained earnings.

### Impairment

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

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

## 6. Financial Reporting Standards (continued)

### Hedge accounting

The requirements related to hedge accounting will better align the accounting treatments with risk management activities and enable entities to better reflect these activities in their financial statements. It relaxes the requirements for assessing hedge effectiveness which more risk management strategies may be eligible for hedge accounting. It also relaxes the rules on using non-derivative financial instruments as hedging instruments and allows greater flexibility on hedged items. Users of the financial statements will be provided with more relevant information about risk management and the effect of hedge accounting on the financial statements.

The Bank does not expect that the hedge accounting will have a significant impact on the Bank's financial statements as the Bank does not apply hedge accounting.

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## 7. Related Party Transaction

### (1) Qualitative Disclosure

#### Definition of Related Parties

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

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

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

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

## 7. Related Party Transactions(continued)

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

	Notes	2021 MOP	2020 MOP
Received/receivable from or (paid)/(payable) to related companies:			
Rental expenses	(1)	3,964,770	3,663,976
Service fee	(2)	4,190,458	2,781,562
Payables and other liabilities	(3)	719,024	-
Loans and advances	(4)	<u>-</u>	<u>58,504,000</u>
Deposits from customers:			
Directors of the Bank		29,894,268	162,416,522
Related companies of the Bank*		<u>247,971,979</u>	<u>373,229,567</u>

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

(a) During the year ended 31 December 2021 and at the end of the reporting period, the Bank had the following material transactions and balances with related parties:

Notes:

- (1) Rental expenses were paid to related companies for the lease of office properties based on the market price.
- (2) Service fee was paid to a related company for the provision of consultation services based on the actual costs incurred.
- (3) Balance represented payables to a related company for renovation of office properties.
- (4) 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, which had been settled in February 2021.

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

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## 7. Related Party Transaction (continued)

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

#### (b) Compensation of key management personnel of the Bank

	2021	2020
	MOP	MOP
Short term employee benefits	<u>2,622,408</u>	<u>4,861,601</u>

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

## 8. 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

#### <1> components of own funds & solvency ratio

##### (a) Issued Capital

	2021	2020
	MOP	MOP
Authorised		
8,000,000 (2020: 6,000,000) shares of MOP100 each	<u>800,000,000</u>	<u>600,000,000</u>
Issued and fully paid:		
8,000,000 (2020: 6,000,000) shares of MOP100 each	<u>800,000,000</u>	<u>600,000,000</u>

##### (b) Components of own funds

EQUITY	2021
	'000MOP
Issued capital	800,000
Legal reserve	57,572
Other reserves (See note listed below)	75,929
Revaluation reserve	40,930
Retained earnings	<u>198,943</u>
Total equity	<u>1,173,374</u>

Note: "Other reserves" including an additional provision for MOP75,928,685.00 on different risks provided in accordance with circular No. 18/93-AMCM of Monetary Authority of Macao.

The Macau Chinese Bank Ltd.

澳門華人銀行股份有限公司

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## 8. Capital (continued)

### (2) Quantitative Disclosure (continued)

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

(c) Capital Adequacy Ratio = 17.48 %

(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)]
1,320,359	274,134	7,070,012	208,935	17.48%



澳門華人銀行  
Macau Chinese Bank

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財務訊息披露是根據金管局於16/11/2012發出的指引（傳閱文件第026/B/2012-DSB/AMCM號）而制定

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## **8. Capital (continued)**

### **(2) Quantitative Disclosure (continued)**

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

Not applicable

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## 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%

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## 9. Credit Risk

### (2) Quantitative Disclosure

#### <1> Maturity Analysis

Year ended 31 December 2021

	On demand MOP\$'000	3 months or less MOP\$'000	1 year or less but over 3 months MOP\$'000	5 years or less but over 1 year MOP\$'000	Over 5 years MOP\$'000	Total MOP\$'000
<b>Financial assets</b>						
Cash and balances with banks	2,771,141	-	-	-	-	2,771,141
Deposits with Monetary Authority	993,780	-	-	-	-	993,780
Placements with other banks	-	421,933	-	-	-	421,933
Loans and advances to customers	888,259	6,137,323	379,707	484,482	-	7,889,771
Financial assets included in receivables and other assets	28,356	81,825	2,792	1,101	-	114,074
Available-for-sale investments	-	24,339	24,698	205,501	27,849	282,387
Held-to-maturity investments	-	12,595	190,815	234,613	-	438,023
	<u>4,681,536</u>	<u>6,678,015</u>	<u>598,012</u>	<u>925,697</u>	<u>27,849</u>	<u>12,911,109</u>
<b>Financial liabilities</b>						
Deposits from banks	-	882,681	-	-	-	882,681
Deposits from customers	1,142,654	5,434,193	4,051,238	181,965	-	10,810,050
Bonds issued	-	-	-	-	180,000	180,000
Financial liabilities included in payables and other liabilities	-	23,336	105,652	-	-	128,988
	<u>1,142,654</u>	<u>6,340,210</u>	<u>4,156,890</u>	<u>181,965</u>	<u>180,000</u>	<u>12,001,719</u>
Net liquidity gap	<u>3,538,882</u>	<u>337,805</u>	<u>(3,558,878)</u>	<u>743,732</u>	<u>(152,151)</u>	<u>909,390</u>

## 9. Credit Risk (continued)

### (2) Quantitative Disclosure

#### <2> Industry distribution of Loan and Advances

	As at 31 December 2021		
	MOP'000		
	Gross loans and advances	Overdue loans and advance (more than 3 months)	Specific Provisions
Manufacturing industries	238,738	-	-
Electricity, gas and water	37,080	-	-
Construction and public works	1,394,785	62,945	1,597
Wholesale and retail trade	1,052,375	-	-
Restaurants, hotels and similar	93,249	-	-
Non-monetary financial institutions	197,143	-	-
Education	27,752	-	-
Information technology	248,657	51,500	-
Other industries	2,820,750	98,008	-
Personal loans	1,794,211	120,954	5,455
<b>Total</b>	<b>7,904,740</b>	<b>333,407</b>	<b>7,052</b>

#### <3> Geographical distribution

##### (a) Geographical distribution of Loans and Advances

	As at 31 December 2021		
	MOP'000		
	Gross loans and advances	Overdue loans and advance (more than 3 months)	Specific Provisions
Macau SAR	4,155,185	182,758	7,052
Hong Kong SAR	949,306	-	-
China, People's Republic	2,153,091	150,649	-
United Kingdom	5,356	-	-
Cayman Islands	403,302	-	-
Virgin Islands, British	238,500	-	-
<b>Total</b>	<b>7,904,740</b>	<b>333,407</b>	<b>7,052</b>

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## 9. Credit Risk (continued)

### (2) Quantitative Disclosure (continued)

#### <3> Geographical Distribution (continued)

##### (b) Geographical analysis of investments in debt securities

Region	As at 31 December 2021 MOP'000
Macau SAR	
Of which:	
– Banks	230,221
– Government/Public sectors	
– Others	
Hong Kong SAR	
Of which:	
– Banks	116,549
– Government/Public sectors	
– Others	47,657
Cayman Islands	
Of which:	
– Banks	
– Government/Public sectors	
– Others	24,174
Germany	
Of which:	
– Banks	2,411
– Government/Public sectors	
– Others	
United Kingdom	
Of which:	
– Banks	3,371
– Government/Public sectors	
– Others	
China, People's Republic	
Of which:	
– Banks	128,671
– Government/Public sectors	46,399
– Others	120,957
TOTAL	720,410

## 9. Credit Risk (continued)

### (2) Quantitative Disclosure (continued)

#### <4> Analysis of Past Due Assets

Loans and advances to non-bank customers

	As at 31 December 2021	
	Gross amount of overdue loans	MOP'000 % of total loans
Gross advances to customers which have been overdue for:		
- 3 months or less	140,847.00	1.78%
- 6 months or less but over 3 months	-	0.00%
- 1 year or less but over 6 months	161,514.00	2.04%
- over 1 year	171,893.00	2.17%
Total	474,254.00	6.00%

## 10. Market Risk

### **Quantitative - Capital Requirements for Interest Rate Risk, Equity Position Risk, Foreign Exchange Risk and Commodity 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.

Please refer to:

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

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

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

	2021 '000MOP
Currencies	
MOP	71,307
HKD	137,925
USD	12,009
CNY	12,344
Impact on economic value to own funds ratio	17.69%

## 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) Qualitative Disclosure

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

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

	As at 31 December 2020
	<u>'000MOP Equivalent</u>
HKD	(2,107,686)
CNY	97,561
USD	263,325
Others	38

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

	Spot Assets	Spot Liabilities	Net Position
	'000MOP	'000MOP	'000MOP
HKD		(2,107,686)	(2,107,686)

##### <2> Forward sales position:

NIL

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#### **14. Equity Position Risk**

Not applicable



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## **15. Commodity Risk**

NIL

## 16. 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

## 16. Liquidity Risk (continued)

### (2) Quantitative Disclosure

#### (a) Average weekly liquidity

	For the year Ended 31 December 2021 ( <u>'000 MOP</u> )
Minimum requirement of cash in hand	167,711
Average weekly amount of cash in hand	498,009

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

#### (b) Average specified liquid assets

	For the year Ended 31 December 2021 ( <u>'000 MOP</u> )
Specified liquid assets	5,247,136
Basic liabilities	10,438,833
Ratio of solvency assets to basic liabilities	50.27%

#### (c) Average liquidity ratio

	For the year Ended 31 December 2021 ( <u>'000 MOP</u> )
One-month liquidity ratio	135.70%
Three-month liquidity ratio	87.97%

## 17. Other Information

### Operating Lease Commitments

#### (a) As Lessor

The Bank leases its investment property (note 16 to the financial statements) to an independent third party under operating lease arrangements.

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:

As lessor	2021 MOP	2020 MOP
Within one year	752,726	5,620,356
In the second to fifth years, inclusive	-	752,726
	<u>752,726</u>	<u>6,373,082</u>

#### (b) As Lessee

The Bank leases a portion of its office properties under operating lease arrangements with remaining lease terms of one to nine years (2020: one to three years). At the end of the reporting period, the Bank had total future minimum lease payments under non-cancellable operating leases falling due as follows:

As lessee	2021 MOP	2020 MOP
Within one year	9,705,121	8,618,048
In the second to fifth years, inclusive	10,666,093	6,199,684
After five years	12,085,334	-
	<u>32,456,548</u>	<u>14,817,732</u>