# Banco Espírito Santo do Oriente, S.A.

Annual Disclosure
for the year ended 31 December 2013

# BANCO ESPÍRITO SANTO DO ORIENTE, S.A.
## Balance sheet as at 31 December 2013
*(Expressed in Macau Patacas)*

| ASSETS | GROSS ASSETS | PROVISIONS DEPRECIATION & AMORTIZATION | NET ASSETS |
|---|---|---|---|
| CASH | 317,480.81 | | 317,480.81 |
| DEPOSITS WITH AMCM | 482,298,924.13 | | 482,298,924.13 |
| VALUES FOR COLLECTION | 1,196,000.00 | | 1,196,000.00 |
| DEPOSITS ON DEMAND WITH LOCAL CREDIT INSTITUTIONS | 2,754,065.08 | | 2,754,065.08 |
| DEPOSITS ON DEMAND WITH FOREIGN CREDIT INSTITUTIONS | 10,281,789.29 | | 10,281,789.29 |
| OTHER VALUES | 95,249.28 | | 95,249.28 |
| LOANS AND ADVANCES | 840,957,406.34 | | 840,957,406.34 |
| PLACEMENTS WITH LOCAL CREDIT INSTITUTIONS | - | | - |
| DEPOSITS AT CALL AND AT TERM ABROAD | 2,859,274,400.00 | | 2,859,274,400.00 |
| SHARES, BONDS AND OTHER SECURITIES | 67,202,525.99 | (48,534.00) | 67,153,991.99 |
| DEBTORS | 1,148,616.00 | | 1,148,616.00 |
| OTHER APPLICATIONS | - | | - |
| INVESTMENTS | 190,000.00 | | 190,000.00 |
| EQUIPMENT | 3,778,859.62 | (2,864,934.62) | 913,925.00 |
| DEFERRED EXPENDITURES | 183,395.56 | (149,394.00) | 34,001.56 |
| INSTALLATION EXPENDITURES | 4,316,303.50 | (1,892,245.00) | 2,424,058.50 |
| CONSTRUCTIONS IN PROGRESS | 13,029,888.09 | | 13,029,888.09 |
| INTERNAL ACCOUNTS | 20,789,463.23 | | 20,789,463.23 |
| TOTAL | **4,307,814,366.92** | **(4,955,107.62)** | **4,302,859,259.30** |

# Balance sheet as at 31 December 2013 (continued)

*(Expressed in Macau Patacas)*

| LIABILITIES | SUB-TOTALS | TOTAL |
|---|---|---|
| DEPOSITS ON DEMAND | 59,619,900.28 | |
| FIXED TERM DEPOSITS | 1,501,256,036.71 | |
| PUBLIC SECTOR DEPOSITS | 2,113,814,930.45 | 3,674,690,867.44 |
| BORROWING FROM LOCAL CREDIT INSTITUTIONS | 103,000,000.00 | |
| CHEQUES & PAYMENT ORDERS | 1,558,801.34 | |
| CREDITORS | 6,856,617.34 | |
| OTHER LIABILITIES | 177,702.13 | 111,593,120.81 |
| INTERNAL ACCOUNTS | 39,208,557.31 | |
| PROVISIONS FOR OTHER RISKS AND CHARGES | 9,851,556.00 | |
| SHARE CAPITAL | 200,000,000.00 | |
| LEGAL RESERVES | 46,949,744.79 | |
| OTHER RESERVES | 112,873.04 | 296,122,731.14 |
| RESULTS CARRIED FORWARD | 180,989,444.41 | |
| PROFIT FOR THE YEAR ENDED | 39,463,095.50 | 220,452,539.91 |
| | | **4,302,859,259.30** |

# Balance sheet as at 31 December 2013 (continued)

*(Expressed in Macau Patacas)*

| MEMORANDUM ITEMS | AMOUNT |
|---|---|
| VALUES HELD IN DEPOSIT | 4,401.97 |
| VALUES HELD FOR COLLECTION | 115,472,067.93 |
| VALUES HELD AS GUARANTEE | 1,832,540,241.80 |
| BANK GUARANTEES | 161,016,376.46 |
| LETTER OF CREDIT ISSUED | 106,135,674.49 |
| ACCEPTANCES OUTSTANDING | 133,755,748.82 |
| FORWARDS PURCHASE | 192,497.93 |
| FORWARDS SALES | 191,981.75 |
| OTHER MEMORANDUM ITEMS | 3,261,547,558.74 |

# BANCO ESPÍRITO SANTO DO ORIENTE, S.A.

## Operating Profit and Loss

## For the year end 31 December 2013

*(Expressed in Macau Patacas)*

| DEBIT | AMOUNT | CREDIT | AMOUNT |
|---|---|---|---|
| INTEREST EXPENSE | 98,527,675.47 | INTEREST INCOME | 154,250,675.99 |
| STAFF COSTS: | | BANKING SERVICES INCOME | 210,094.00 |
| MANAGEMENT REMUNERATION | 6,405,188.30 | OTHER BANKING SERVICES INCOME | 22,886,277.68 |
| EMPLOYEES REMUNERATION | 9,711,726.91 | SECURITIES & FINANCIAL INVESTMENT INCOME | 210,393.07 |
| SOCIAL EXPENSES | 630,295.30 | OTHER BANKING INCOME | 275,794.26 |
| OTHER STAFF COSTS | 521,785.00 | | |
| THIRD PARTY SUPPLIES | 323,218.68 | | |
| THIRD PARTY SERVICES | 12,894,448.19 | | |
| OTHER BANKING EXPENSES | 2,646,673.76 | | |
| INDUSTRIAL AND OTHER TAXES | 143,385.04 | | |
| OTHER EXPENSES | 175,311.95 | | |
| DEPRECIATION AND AMORTIZATION | 839,323.90 | | |
| PROVISIONS FOR OTHER RISKS AND CHARGES | 125,922.00 | | |
| OPERATING PROFIT FOR THE YEAR ENDED | 44,888,280.50 | | |
| TOTAL | **177,833,235.00** | TOTAL | **177,833,235.00** |

# BANCO ESPÍRITO SANTO DO ORIENTE, S.A.

## Net Profit and Loss

## For the year end 31 December 2013*(Expressed in Macau Patacas)*

| DEBIT | AMOUNT | CREDIT | AMOUNT |
|---|---|---|---|
| OPERATING LOSS FOR THE YEAR ENDED | - | OPERATING PROFIT FOR THE YEAR ENDED | 44,888,280.50 |
| PRIOR YEAR LOSS | 8,075.00 | PRIOR YEAR GAIN | 1,055.00 |
| EXCEPTIONAL LOSS | - | EXCEPTIONAL PROFIT | 4,120.00 |
| COMPLEMENTARY INCOME (CORPORATE) TAX | 5,422,285.00 | PROVISIONS UTILISED | - |
| NET PROFIT FOR THE YEAR ENDED | 39,463,095.50 | NET LOSS FOR THE YEAR ENDED | - |
| TOTAL | **44,893,455.50** | TOTAL | **44,893,455.50** |

# Summary of Management Report

## International Economic Framework

The year under review was marked by a recovery in global economic activity, most notably in the core developed economies. In H2 the U.S. economy improved, underpinned by a recovery in employment and housing markets, by reduced budgetary risk and by strong monetary policy stimulus, in turn reflected in a Fed funds target rate of near zero and coupled with aggressive quantitative easing. U.S. GDP grew by 1.9% with a reported annualised quarterly change of 2.6% in Q4. Favourable performance in developed economies was supported by a European recovery driven by strong monetary stimulus, progress in the UK in de-leveraging family and business debt (UK GDP rose 1.9% in 2013) and a sharp decline in systemic risk associated with the Eurozone sovereign debt crisis. Despite a 0.4% annual decline in Eurozone GDP in 2013, the area reported a positive quarterly performance in Q2, and is expected to grow by around 1% in 2014.

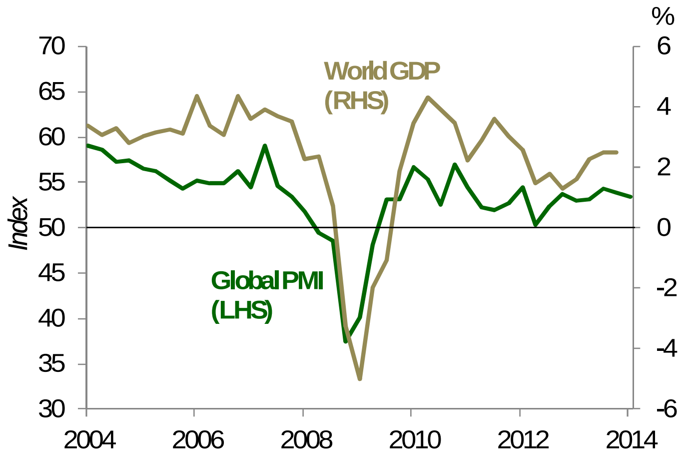
Recovery in Eurozone activity also extended to peripheral economies, which saw a return to positive growth in H2 of the year. Spain and Portugal reported negative annual GDP growth in 2013 ( -1.2% and -1.4%, respectively) due to a slowdown at the start of the year. However confidence improved in H2 marked by expanding activity and stabilized financial conditions. In the U.S. and Europe, growth and confidence recovered against a background of expansionary monetary policies which in turn impacted favourably on equities. In the U.S., the S&P500 and NASDAQ indexes gained 29.6% and 38.3%, respectively. In Europe, DAX, CAC40 and IBEX indexes gained 25.5%, 18% and 21.4% respectively. With the risk of deflation persisting, the ECB lowered the interest rate on core refinancing operations in November, from 0.5% to 0.25%. However, 3-month Euribor rose 6 bps in Q4 and 10 bps over the year to 0.287%, mainly reflecting reduced liquidity associated with increased LTRO repayments by banks. The euro appreciated by 4.5% against the USD to EUR / USD 1.379. The absence of inflationary pressures was sustained by oil price stability. Brent fell 1% in 2013 to USD 110.8/barrel.

With activity recovering and the U.S. Federal Reserve showing no signs of tapering its quantitative easing programme, yields on 10 year Treasuries and Bunds rose in 2013 from 1.758% to 3.029% and 1.316% to 1.929%, respectively. The prospect of higher U.S market interest rates, along with dollar appreciation and less accessible liquidity drove financial market volatility from May and penalised emerging markets in particular. In Brazil, the *real* depreciated by some 13% against the USD and around 17% against the Euro. The Bovespa index was down 15.5%. Facing strong domestic demand and inflationary pressures -- with inflation approaching 6% -- the Central Bank raised its SELIC interest rate 7.25% to 10% in 2013 (and 10.5% in early 2014). The Brazilian economy expanded by 2.3% in 2013, but growth expectations for 2014 have subsequently deteriorated (to around 2%).

The position in emerging markets was further impacted by fears of an economic slowdown in China, especially in H1. Chinese authorities have been opting for more balanced growth with a greater restriction on credit, a refocusing of economic activity, investment and exports towards private consumption, and more moderated growth expectations. But a faster-than-expected slowdown in GDP growth in Q2 -- from 7.7% to 7.5% y-o-y -- coupled with fears of a credit crunch in June, forced Chinese authorities to announce a package of targeted economic incentives. The slowdown was reversed in H2, leading to y-o-y growth of 7.8% and 7.7% in Q3 and Q4, respectively. For all of 2013, the Chinese economy grew by 7.7%, repeating the performance of the previous year.

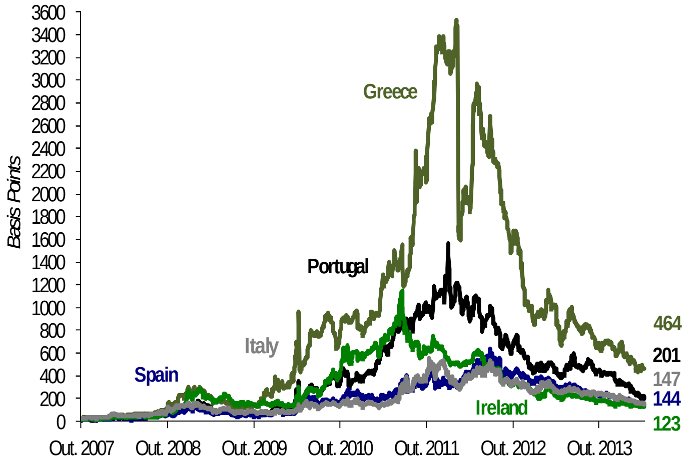
The Indian rupee depreciated some 15% against the euro and almost 11.5% against the USD, reflecting the greater volatility of emerging markets. Benchmark interest rates in H1 dropped from 8% to 7.25%. However credible Central Bank adjustments to deteriorating external financing conditions, including a new rise in interest rates to 7.75% in 2013 (and 8% to date in 2014), eased market pressures on the Indian economy. The Sensex index rose 9% in the period with GDP improving by 4.5%. Despite an increasingly riskier outlook, the greater vulnerability of emerging economies had no significant impact on the performance of the Angolan economy. Angolan GDP grew 5.6% in 2013, up over the 5.2% reported for the previous year and benefiting from a slight increase in oil production but more particularly from improved trading in non-oil sectors, notably agriculture, diamonds and manufacturing.

**Figure 1: World GDP Growth vs.. Global PMI**




**Source:** Bloomberg.

**Figure 2: Public debt 10 year spreads vs. Germany**



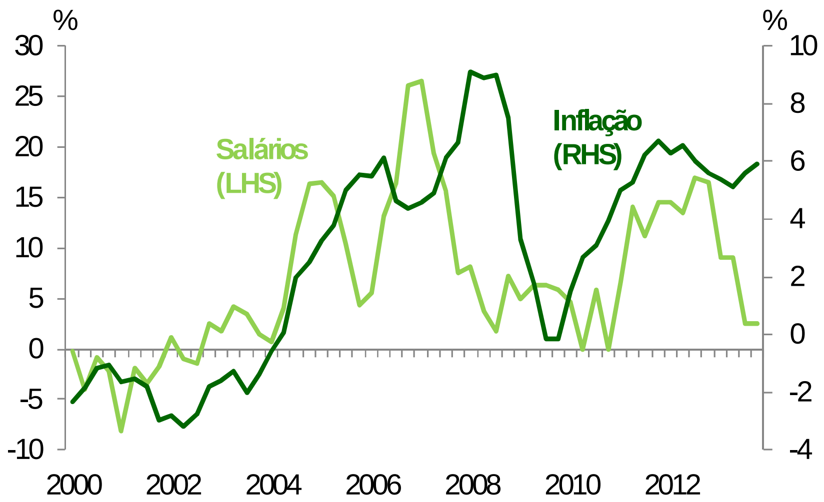

**Source:** Bloomberg.

## Macau

Macau's economy grew 11.9% in 2013, a notably positive result and an improvement over the previous annual figure of 9.1%. This positive growth was mainly due to strong exports, especially of services associated with gaming and Tourism which remain key expansionary drivers. Gaming revenues rose 18.6% over the period reflecting a strong and dynamic sector. Export of goods showed a positive trend, contributing significantly to the buoyant economic performance.

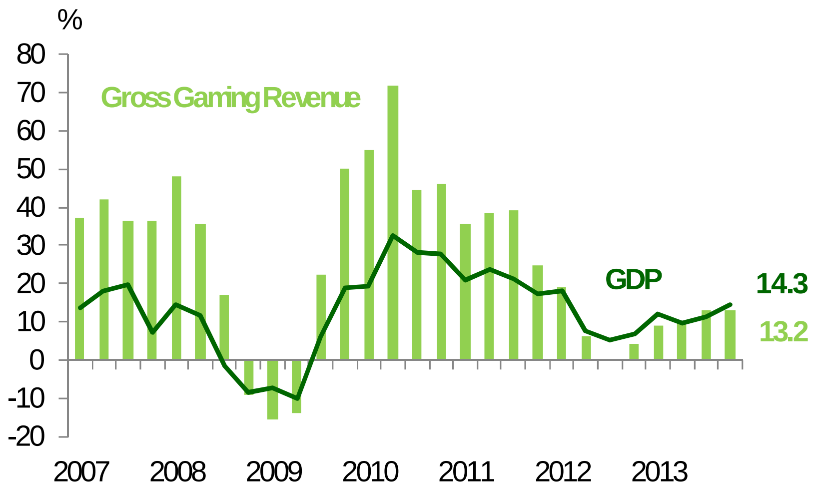
Despite lower inflation, down on average to 5.5%, unchanged nominal wage levels caused real wages to weaken moderately and private consumption to slow slightly. In terms of employment, the jobless rate remained stable, falling from 1.9% to 1.8% of the economically active population. Investment rose by 13.1%, driven by the private sector, in particular the construction industry. While highly positive, this represents a slowdown compared to the previous year due to falling public investment. A robust rise in domestic demand, despite a slight moderation in consumption and investment led, in part, to a significantly higher rise in imported goods.

**Figure 3: Median wages (%, y-o-y) and inflation rate (%).**




**Source:** DSEC.

**Figure 4: Quarterly GDP (%, y-o-y) and monthly Gaming income (%, y-o-y).**




**Source:** DSEC.

In 2013, Banco Espirito Santo do Oriente, S.A. ("BESOR"or the "Bank") presented the following main management indicators: total net asset value amounted to MOP4,302,859,259 and net earnings reached a total of MOP39,463,095.50.

Reference should also be noted to the initial impact of the costs associated with the implementation of the Strategic Plan of BESOR (2014-2017).

BESOR's core business activities continue to come from the increased pace in Corporate/Trade Finance, associated with significant trade flows between mainland China and countries where BESOR Group has a decisive strategic presence. These include Africa, Latin America and Europe, and the use of Macau as a business platform between China and Portuguese-speaking countries.

The retention and growth of the Bank's deposit base over recent years, remains of particular relevance in the current climate. BESOR further developed new business initiatives with its various customer segments which in turn will lead to a continuous increase in customer deposits.

**Proposed disbursement**

In compliance with legal and statutory requirements, the Board proposes that the annual meeting approve earnings for the year ended December 31, 2013, totalling MOP 39,463,095.50 (thirty nine million four hundred sixty three thousand and ninety five patacas and fifty avos) shall be distributed as follows:

| | |
|---|---|
| To Legal Reserves [a] | MOP 8,478,271.76 |
| To Retained Earnings | MOP 30,984,823.74 |

*(a) 20% of Net Profit in accordance with the applicable legislation.*

Board of Directors
Macau, 31 March 2014

# The Report from the Supervisory Board

Dear Shareholders,

Pursuant to the applicable legal and statutory provisos, the Supervisory Board hereby submits its activity report and opinion on the Board of Directors' Report and Accounts of **BANCO ESPÍRITO SANTO DO ORIENTE, S.A.**, for the Financial Year ended 31 December 2013.

The Board of Directors' Report outlines in a clear manner the economic situation and progress of the Bank's activity during the 2013 Financial Year.

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

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

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

**1.** The Summary of Management Report, the Balance Sheet and the Profit and Loss Account should be approved; and,

**2.** The proposal relating to the appropriation of profits should be approved.

The Supervisory Board
Macau, 31 March 2014

# Governing Bodies

**Board of the General Meeting**

Maria de Lurdes Nunes Mendes da Costa (Chairperson)
Rui Luís Cabral de Sousa (Secretary)

**Board of Directors**

Pedro José de Sousa Fernandes Homem (Chairman)
José Manuel Trindade Morgado
Carlos José Nascimento Magalhães Freire
Jorge Manuel da Conceição Góis
Manuel Alexandre da Rocha Barreto
Paulo Jorge Gonçalves Dias Afonso
Rui Manuel Fernandes Pires Guerra
Paulo Jorge Carrageta Ferreira
Amílcar Carlos Ferreira de Morais Pires

**Executive Committee**

José Manuel Trindade Morgado (Chief Executive Officer or “CEO”)
Carlos José Nascimento Magalhães Freire (Deputy CEO)
Jorge Manuel da Conceição Góis
Manuel Alexandre da Rocha Barreto
Rui Manuel Fernandes Pires Guerra
Paulo Jorge Gonçalves Dias Afonso
Paulo Jorge Carrageta Ferreira

**Supervisory Board**

Ricardo Abecassis Espírito Santo Silva (Chairman)
José Manuel Macedo Pereira
Joaquim Jorge Perestrelo Neto Valente

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

| | |
|---|---|
| Europ Assistance (Macau) – Serviços de Assistência Personalizados, Lda. | 25% |
| Espírito Santo do Oriente – Estudos Financeiros e de Mercado de Capitais, Lda. | 90% |

## Substantial shareholder of the Bank

| | *Ordinary shares of MOP1,000 each* | |
|---|---|---|
| | *Total number of ordinary shares held* | *% of total issued shares* |
| Banco Espírito Santo, S.A. | 199,500 | 99.75% |

# Unaudited information
*(Expressed in Macau Patacas)*

## 1 Report of Corporate Governance

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

***Board of the General Meeting***

Maria de Lurdes Nunes Mendes da Costa *(Chairperson)*
Rui Luís Cabral de Sousa (*Secretary)*

***Board of Directors***

Pedro José de Sousa Fernandes Homem *(Chairman)*
José Manuel Trindade Morgado
Carlos José Nascimento Magalhães Freire
Jorge Manuel da Conceição Góis
Manuel Alexandre da Rocha Barreto
Paulo Jorge Gonçalves Dias Afonso
Rui Manuel Fernandes Pires Guerra
Paulo Jorge Carrageta Ferreira
Amílcar Carlos Ferreira de Morais Pires

***Supervisory Board***

Ricardo Abecassis Espírito Santo Silva *(Chairman)*
José Manuel Macedo Pereira
Joaquim Jorge Perestrelo Neto Valente

<u>Supervisory board</u>

The Supervisory board comprises of three (3) independent directors, in which one (1) should be a registered auditor. The Supervisory board meets regularly to review and discuss financial performance, consider the nature and scope of audit review and compliance with local regulations. The Supervisory board responsibilities, among others, are as follows:

- Closely monitor the management of the bank;
- Ensure compliance with the laws, regulations and articles of the association;
- Examine the books and accounting records; and,
- Fulfill other obligations imposed by law and the articles of the association.

# Unaudited information

*(Expressed in Macau Patacas)*

## 1 Report of Corporate Governance (continued)

Executive committee

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

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

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

The EC meets regularly to review the management and performance of the Bank. The EC comprises of a CEO, deputy CEO and 5 directors.

The members of the EC are as follows:

José Manuel Trindade Morgado *(CEO)*
Carlos José Nascimento Magalhães Freire *(Deputy CEO)*
Jorge Manuel da Conceição Góis
Manuel Alexandre da Rocha Barreto
Rui Manuel Fernandes Pires Guerra
Paulo Jorge Gonçalves Dias Afonso
Paulo Jorge Carrageta Ferreira

# Unaudited information (continued)

*(Expressed in Macau Patacas)*

## 2 The Cash flow statement

| | |
|---|---|
| **Operating activities** | |
| Profit before taxation | 44,893,456 |
| Adjustments for: | |
| Depreciation and amortisation | 839,323 |
| Amortisation of premium on securities investments | (255,267) |
| Charge to provisions | 124,867 |
| Gain on disposal of fixed asset | (4,120) |
| Foreign exchange gain | (558,019) |
| | 45,040,240 |
| **Decrease/(increase) in operating assets** | |
| Change in loans and advances | (132,682,046) |
| Change in placements with foreign credit institutions with original maturity over three months | (551,089,200) |
| Change in other assets | 14,707,669 |
| **(Decrease)/increase in operating liabilities** | |
| Change in deposits on demand | 10,745,689 |
| Change in fixed term deposits | (565,045,948) |
| Change in borrowings from local credit institutions | 97,850,000 |
| Change in other liabilities | (545,269) |
| Change in other payables | 1,588,832 |
| **Cash (used in)/generated from operating activities** | (1,079,430,033) |
| Taxation paid | (5,850,819) |
| **Net cash (used in)/generated from operating activities** | (1,085,280,852) |

## 2 The Cash flow statement (continued)

**Investing activities**

| | |
|---|---|
| Proceeds from disposal of fixed asset | 4,120 |
| Payment for fixed assets and deferred expenses | (13,909,219) |
| **Net cash (used in)/generated from investing activities** | (13,905,099) |
| **Net (decrease)/increase in cash and cash equivalents** | (1,099,185,951) |
| **Cash and cash equivalents at 1 January** | 2,366,760,410 |
| **Cash and cash equivalents at 31 December** | 1,267,574,459 |

# Unaudited information (continued)

*(Expressed in Macau Patacas)*

## 3 Off-balance sheet exposures other than derivative transactions

At 31 December 2013, the Bank had the following contingent liabilities and outstanding commitments:

***(a) Off balance sheet items outstanding (contract amount) at the balance sheet date (in MOP):***

| | |
|---|---|
| Bank guarantees issued | 161,016,376 |
| Values received for safekeeping | 4,402 |
| Values held as guarantees | 1,832,540,242 |
| Letter of Credit | 106,135,674 |
| Undrawn facilities | 712,403,200 |
| Risk participation | - |
| Values for collection | 115,472,068 |
| Acceptance outstanding | 133,755,749 |

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

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

At 31 December 2013, the Bank had future aggregate minimum lease payments under operating leases as follows (in MOP):

| | |
|---|---|
| Up to one year | 3,633,578 |
| From one year to five years | 1,216,196 |
| | 4,849,774 |

## 4 Derivatives

As at 31 December 2013, the notional amount of interest-bearing off balance sheet financial instruments is as follows:

| | *Notional amount* MOP | *Credit risk weighted amount* *MOP* |
|---|---|---|
| Foreign currency swaps | 2,415,388,610 | 724,617 |
| Foreign exchange contract | 192,498 | 58 |

The notional amounts of these contracts indicate the volume of transactions outstanding and do not represent amounts at risk.

## 5 Accounting policies

### *(a) Income recognition*

Interest income is recognised in the income statement on an accrual basis, except in the case of doubtful loans and advances where interest is credited to a suspense account that is netted off in the balance sheet against the relevant balances.

Fee and commission income is recognised in the period it is earned. Fees that are charged to cover the costs of a continuing service to, or risk borne for the customer, or are interest in nature, are recognised on a time proportion basis over the relevant period.

### *(b) Shares, bonds and other securities*

Ordinary shares are revalued at the lower of acquisition cost or fair market value.

Bonds and other securities have fixed or determinable payments and fixed maturity and the Bank have the positive intention and ability to hold them to maturity. Bond and other securities are included in the balance sheet at the acquisition cost adjusted for the amortisation of premium or discount arising on acquisition. Quoted securities are revalued at the quoted price if lower than the acquisition cost.

## 5 Accounting policies (continued)

### *(c) Financial investments*

*Investment in subsidiary*

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

*Investment in associate*

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

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

(i) Loans and advances to customers are subject to general provisions and specific provisions for bad and doubtful debts.

(ii) All advances on which principal or interest have been overdue for more than three months are classified as non-performing in accordance with the requirements of the AMCM.

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

## 5 Accounting policies (continued)

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

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

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

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

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

| | |
|---|---|
| - Furniture, fixture and equipment | 5 to 10 years |
| - Computer equipment | 4 years |
| - Motor vehicles | 5 years |
| - Leasehold improvements | 6 years |
| - System development cost | 6 years |

### *(f) Deferred expenses*

Deferred expenses include installation expenditures on the Bank's leasehold properties and computer software acquired and are amortised over three years on a straight-line basis.

## 5 Accounting policies (continued)

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

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

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

### *(h) Operating leases*

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

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

### *(i) Cash equivalents*

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

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

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

## 5 Accounting policies (continued)

### *(k) Income tax*

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

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

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

### *(l) Related parties*

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

(a) Any person or any close family member of that person if that person:

- (i) has control or joint control over the credit institution;
- (ii) has significant influence over the credit institution;
- (iii) holds a qualifying holding in the credit institution;
- (iv) is a member of the board of directors or supervisory board of the credit institution or of a parent of the credit institution; or
- (v) is a member of the key management personnel, other than a member of the board of directors or supervisory board as identified in sub-item (iv) above, of the credit institution or of a parent of the credit institution.

## 5 Accounting policies (continued)

### *(l) Related parties (continued)*

(b) Any entity if any of the following conditions applies:

(i) That entity and the credit institution are members of the same group (e.g. parent, subsidiary and fellow subsidiary).

(ii) That entity holds a qualifying holding in the credit institution.

(iii) That entity is an associate or joint venture of the credit institution (or an associate or joint venture of a member of a group of which the credit institution is a member).

(iv) The credit institution is an associate or joint venture of that entity (or an associate or joint venture of a member of a group of which that entity is a member).

(v) That entity and the credit institution are both joint ventures of the same third party.

(vi) That entity is a joint venture of a third entity and the credit institution is an associate of that third entity.

(vii) The credit institution is a joint venture of a third entity and that entity is an associate of that third entity.

(viii) That entity is controlled or jointly controlled by a person identified in (a).

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

(x) A person identified in (a)(iv) is a member of the key management personnel of that entity (or of a parent of that entity).

## 6 Related party transactions

***Policy for lending to related parties***

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

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

(a) The Bank shall not incur an exposure to any person, individual or corporate, which holds, directly or indirectly, a qualifying holding in it, or to companies in which this person has direct or indirect control, which at any time in the aggregate exceeds 20% of its own funds;

(b) The aggregate exposure of all holders of qualifying holdings and companies referred to in (a) may not exceed at any time, 40% of the Bank's own funds;

(c) The operations referred to in (a) and (b) require approval from all the members of the Board of Directors and a favourable opinion from the Supervisory board, and the respective terms shall be notified to AMCM within ten (10) days counted from the date of the respective approval;

(d) The Bank shall not incur any exposure in the following cases and above the following limits:

   (i) against the security of its own shares;

   (ii) to the members of the Board of Directors and Supervisory board, their spouses so long as they are not judicially separated or married under the regime of separate property, children, parents, step-children, step-parents, sons-in-law, daughters-in-law, parents-in-law or companies under their control or to which Board of Directors or Supervisory board they belong, to an aggregate amount exceeding 10% of own funds;

   (iii) to each of the entities mentioned in ii, to an amount exceeding 1% of own funds; and,

   (iv) to each employee, for an amount which exceeds his or her total net annual income.

(e) The exposure referred to in above d (ii) and d (iv) may exceed the limits set therein when the credit is intended for home purchase by the respective beneficiary, collateralized by a real guarantee which has been evaluated by an independent value and registered in the name of the Bank.

## 6 Related party transactions (continued)

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

### *(a) Transactions with key management personnel*

*Key management personnel of the Bank*

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

### *(b) Transactions with group companies*

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

The amount of related party transactions during the year is set out below (in MOP):

| | |
|---|---:|
| Interest income | 122,922,423 |
| Interest expense | 5,754,945 |
| Commission received from services | 8,824,206 |
| Commission paid for custody service and other services | 109,792 |

# Unaudited information (continued)

*(Expressed in Macau Patacas)*

## 6 Related party transactions (continued)

### *(b) Transactions with group companies (continued)*

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

**Assets:**

| | |
|---|---|
| Placements with foreign credit institutions | 2,859,274,400 |
| Current Accounts | 11,481 |
| Sundry Debtors | 486,609 |
| Deposits on demand with foreign credit institutions | 1,867,358 |
| Loans and advances to customers (forfeiting) | 110,858,539 |
| Interest receivables | 14,298,202 |

**Liabilities:**

| | |
|---|---|
| Fixed term deposits | 215,361,350 |
| Fixed customers deposits | 606,804 |
| Deposits on demand | 345,946 |
| Interest payables | 15,132 |
| Deferred income (forfeiting) | 1,290,484 |

## 7 Capital

### *(a) Share capital*

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

| | |
|---|---|
| 200,000 shares of MOP1,000 each | 200,000,000 |

### *(b) Capital management*

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

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

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

## 7 Capital (continued)

### *(b) Capital management (continued)*

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

(i) Own funds

The Bank's own fund as of 31 December 2013 amounted to MOP 477.37 million. The value of own funds is the sum of core capital and supplementary capital less the amounts subject to deductions (if there were any).

Component of own fund is as follows (in MOP):

| | |
|---|---|
| Share capital | 200,000,000 |
| Legal reserve | 46,949,745 |
| Other reserve | 112,873 |
| Retained earnings | 180,989,443 |
| Profit for the year | 39,463,096 |
| Total core capital | 467,515,157 |
| General provision/ Total supplementary capital | 9,851,556 |
| Total amount of own funds | 477,366,713 |

## 7 Capital (continued)

### *(b) Capital management (continued)*

(i) Own funds (continued)

The Bank’s core capital consists of the following:

- Paid-up share capital pertains to 200,000 equity shares of authorised, issued and fully paid shares. The Bank does not have any other capital instruments except for these equity shares as qualifying capital.

- Legal reserve is a non-distributable reserve set aside from profit each year in accordance with FSA which provides that an amount of not less than 20 % of the profit after taxation be set aside each following year until the reserve reaches 50 % of the Bank’s issued share capital and thereafter 10 % of the profit after taxation be set aside each year until the reserve is equal to the Bank’s issued share capital.

- Other reserve pertains to the one-time transfer of retained profits in the prior year.

- Retained earnings are the accumulated undistributed profits, net of legal reserves set aside in accordance with FSA. Profit for the year pertains to the income earned for the period.

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

(ii) Operational Risk Adjusted Solvency ratio

As of 31 December 2013, the Bank has maintained an Operational Risk Solvency Ratio of 28.51% against AMCM minimum regulatory requirement of 8%. The Operational Solvency Ratio is calculated with the Bank’s own fund expressed as a percentage of the sum of its weight credit risk exposures, weighted market risk exposures and weighted operational risk exposures. The solvency ratio is calculated in accordance with Notice no. 002/2011-AMCM.

## 8 Credit risk management

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

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

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

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

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

a) At the end of each quarter, a minimum specific provision shall be set up for past due accounts, based on their respective balances net of the realizable value of any existing and duly formalized tangible collateral, under Group II, Group III and Group IV at 40%, 80% and 100%, respectively.

b) General provision is maintained at not less than 1% of the aggregate value of loans and advances that are not overdue for more than three months at the date of reporting period.

## 8 Credit risk management (continued)

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

As of 31 December 2013, loans and advances to customers are outstanding for less than 3 months, thus, minimum specific provision is not warranted. A general provision was provided amounted to MOP 9.9 million, which meets the minimum reserve requirement by AMCM.

Investment in debt securities and liquid securities are quoted in a recognised stock exchange and with counterparties that have high credit ratings. Furthermore, transactions involving derivative financial instruments are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations, thus, no impairment loss is recognized as of 31 December 2013.

## 8 Credit risk management (continued)

(i) Geographical analysis of loans and advances to customers

| *Region* | *Gross loans and advances to customers* MOP | *Overdue loans and advances (less than 3 months)* MOP |
|---|---|---|
| Macau SAR | 374,352,622 | - |
| Of which: | | |
| - Banks | - | - |
| - Government/Public sectors | - | - |
| - Others | 374,352,622 | - |
| Portugal | 110,858,539 | - |
| Of which: | | |
| - Banks | 110,858,539 | - |
| - Government/Public sectors | - | - |
| - Others | - | - |
| France | 99,282,600 | - |
| Of which: | | |
| - Banks | - | - |
| - Government/Public sectors | - | - |
| - Others | 99,282,600 | - |
| India | - | - |
| Of which: | | |
| - Banks | - | - |
| - Government/Public sectors | - | - |
| - Others | - | |
| Others | 256,463,645 | - |
| Of which: | | |
| - Banks | 118,568,523 | - |
| - Government/Public sectors | - | - |
| - Others | 137,895,122 | - |
| Total | 840,957,406 | - |

## 8 Credit risk management (continued)

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

(ii) Geographical analysis of investments in debt and other securities

| *Region* | *Gross Investments* MOP |
|---|---|
| Hong Kong SAR | 35,255,126 |
| Of which: | |
| - Banks | 31,947,000 |
| - Government/Public sectors | - |
| - Others | 3,308,126 |
| United Kingdom | 15,973,000 |
| Of which: | |
| - Banks | 15,973,000 |
| - Government/Public sectors | - |
| - Others | - |
| Netherlands | 15,974,000 |
| Of which: | |
| - Banks | - |
| - Government/Public sectors | - |
| - Others | 15,974,000 |
| Total | 67,202,126 |

## 8 Credit risk management (continued)

### *(b) Industry distribution of exposures*

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

| | *Gross loans and advances to customers* MOP | *Overdue loans and advance (less than 3 months)* MOP |
|---|---|---|
| Manufacturing | 285,045,196 | - |
| Construction and public works | - | - |
| Trading | 136,239,508 | - |
| Restaurants, hotels, etc | 46,384,212 | - |
| Transportation, storage and communication | 14,296,124 | - |
| Other credit: | | |
| for other personal use | 316,598 | - |
| others | 358,675,768 | - |
| | 840,957,406 | - |

## 8 Credit risk management (continued)

### *(c) Maturity analysis on assets and liabilities*

*Analysis of assets and liabilities by remaining maturity*

The following maturity profile is based on the remaining period as at 31 December 2013 to the contractual maturity date:

| | | *Maturity date of financial instruments* | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *On demand* MOP | *Up to 1 month* MOP | *1 to 3 months* MOP | *3 to 12 months* MOP | *1 to 3 years* MOP | *More than 3 years* MOP | *Within an indefinite period* MOP | *Total* MOP |
| **Assets** | | | | | | | | |
| Cash and balances with and loans and advances to banks | 1,126,609,459 | 624,014,212 | 1,674,691,001 | 56,655,828 | - | - | - | 3,481,970,500 |
| Other securities | 3,308,126 | - | - | - | - | - | 60,586,274 | 63,894,400 |
| Loans and advances to customers | 42,397,845 | 175,520,576 | 105,872,570 | 113,321,355 | 240,860,620 | 35,940,600 | - | 713,913,566 |
| Interest receivables | - | 10,254,526 | 7,318,492 | 805,276 | - | - | - | 18,378,294 |
| | 1,172,315,430 | 809,789,314 | 1,787,882,063 | 170,782,459 | 240,860,620 | 35,940,600 | 60,586,274 | 4,278,156,760 |

Unaudited information (continued)
*(Expressed in Macau Patacas)*

## 8 Credit risk management (continued)

### *(c) Maturity analysis on assets and liabilities (continued)*

*Analysis of assets and liabilities by remaining maturity (continued)*

| | | *Maturity date of financial instruments* | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *On demand* MOP | *Up to 1 month* MOP | *1 to 3 months* MOP | *3 to 12 months* MOP | *1 to 3 years* MOP | *More than 3 years* MOP | *Within an indefinite period* MOP | *Total* MOP |
| **Liabilities** | | | | | | | | |
| Deposits and balances of banks and financial institutions | - | 103,000,000 | - | - | - | - | - | 103,000,000 |
| Deposits from non-bank customers | 59,273,955 | 241,191,127 | 131,646,150 | 913,057,410 | - | - | - | 1,345,168,642 |
| Deposits from public sector entities | - | 1,392,882,242 | 715,932,688 | 5,000,000 | - | - | - | 2,113,814,930 |
| Deposits from holding and associated companies | 215,707,296 | - | - | - | - | - | - | 215,707,296 |
| Interest payables | - | 7,428,932 | 5,248,430 | 1,680,775 | - | - | - | 14,358,137 |
| | 274,981,251 | 1,744,502,301 | 852,827,268 | 919,738,185 | - | - | - | 3,792,049,005 |
| Net asset (liability) position | 897,334,179 | (934,712,987) | 935,054,795 | (748,955,726) | 240,860,620 | 35,940,600 | 60,586,274 | 486,107,755 |

## 8 Credit risk management (continued)

### *(d) Analysis of past due assets*

As of 31 December 2013, there were no assets that have been past due for more than 3 months.

## 9 Market risk management

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

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

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

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

As of 31 December 2013, the Bank’s market risk is primarily from foreign exchange swap transactions. There were no outstanding interest rate swaps as of balance sheet date.

## 9 Market risk management (continued)

The capital charge for market risk calculated in accordance with Notice no. 011/2007-AMCM guidelines as follows:

| | MOP In '000' |
|---|---|
| Capital charge on foreign exchange Exposure/Total capital charge for market risk | 529 |
| Weighted Market Risk Exposure | 6,607 |

## 10 Interest rate risk

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

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

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

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

*Sensitivity analysis*

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

## 10 Interest rate risk (continued)

As of 31 December 2013, interest rate risk weighted position on all currencies, measured as its impact in the economic values of own funds as follows:

| | MOP In '000' |
|---|---|
| MOP | (5,417) |
| HKD | 150 |
| USD | 2,098 |

## 11 Operational risk management

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

The Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements.

## 12 Foreign exchange risk

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

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

## 12 Foreign exchange risk (continued)

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

The following table indicates the concentration of currency risk as of 31 December 2013:

*(In thousand of MOP equivalent)*

| | *HKD* | *CAD* | *CNY* | *EUR* | *GBP* | *USD* |
|---|---|---|---|---|---|---|
| Spot assets | 151,897 | 116 | 66 | - | 134 | - |
| Spot liabilities | - | - | - | (6,607) | - | (7,466) |
| Forward sales | - | - | - | - | - | - |
| Net long (short) position | 151,897 | 116 | 66 | (795) | 134 | (7,466) |

## 13 Liquidity risk

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

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

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

# Unaudited information (continued)

*(Expressed in Macau Patacas)*

## 13 Liquidity risk (continued)

### *(a) Average liquidity*

(i) Average weekly liquidity for the year

| | MOP In '000' |
|---|---|
| Minimum weekly cash in hand | 482,712 |
| Average weekly cash in hand | 231,694 |

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

(ii) Liquidity ratio for the year

| | In Percentage |
|---|---|
| 1 month current ratio | 91.07% |
| 3 months current ratio | 164.20% |

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

### *(b) Average solvency assets*

| | MOP In '000' |
|---|---|
| Average specified liquid assets | 3,501,779 |
| Average total basic liabilities | 3,235,910 |
| Ratio of specified liquid assets to basic liabilities | 108% |

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