

BANCO COMERCIAL DE MACAU, S. A.

**REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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BANCO COMERCIAL DE MACAU, S. A.
REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The Board of Directors of Banco Comercial de Macau, S. A. ('Bank' or 'BCM') submit their report together with the audited financial statements for the year ended 31 December 2014.

Principal activities

BCM is a limited liability company by shares incorporated and domiciled in the Macau Special Administrative Region ('MSAR' or 'Macau'), where it engages in general banking business by providing retail, commercial and private banking and other related financial services to its customers.

Results and appropriations

The results of the Bank for the year ended 31 December 2014 are set out in the Income Statement on page 9.

The Board of Directors will propose for approval by the shareholders at the forthcoming Annual General Meeting ('AGM') to appropriate MOP 16,059,000 (being 10% of current year net profit (Note 30)) from 2014 net profit to legal reserve (2013 : MOP 13,918,000).

The Board of Directors do not recommend payment of any dividend.

Shareholders' equity

Movements in shareholders' equity of the Bank during the year are set out in the Statement of Changes in Equity on page 11.

BANCO COMERCIAL DE MACAU, S. A.
REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

(Continued)

Directors

The following persons were appointed as Directors at the AGM held on 27 March 2013 for the triennium 2013-2015 and continue in office at the date of this report:

| | |
|------------------------------|---------------------------|
| David Shou-Yeh Wong | (Chairman) |
| Hon-Hing Wong (Derek Wong) | |
| Gary Pak-Ling Wang | |
| Harold Tsu-Hing Wong | |
| Yiu-Fai Kong (Eddie Kong) | (Chief Executive Officer) |
| Sou-Chao Chan (Kenneth Chan) | |
| Alick Yuk-Fai Chiu | |

Directors' interests in contracts

None of the Directors had a beneficial interest in any contract of significance to the business of the Bank to which the Bank, any of its holding companies or fellow subsidiaries, was a party during the year.

Directors' interests in equities or debentures

At no time during the year was the Bank, any of its holding companies or fellow subsidiaries, a part of any arrangement to enable the Bank's Directors to acquire benefits by means of the acquisition of shares or debentures of the Bank.

Events subsequent to balance sheet date

The Board of Directors are not aware of any event that has occurred since the end of the financial year that has significantly affected the Bank.

BANCO COMERCIAL DE MACAU, S. A.
REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

(Continued)

Management contracts

The Bank entered into an agreement ('Computer and Administrative Services Agreement' or the 'Agreement') with Dah Sing Bank, Limited ('DSB'), commencing on 1 November 2006, with indefinite duration, regarding the provision of services by DSB, BCM's parent company, to the Bank.

The Bank shall pay to DSB, for services rendered to the Bank, per DSB's periodic billing. DSB and the Bank shall review the fees at the end of each year.

Under the terms of the agreement, either party can terminate it by giving notice in writing to the other party if the other party commits any material breach of any terms of the agreement and shall have failed to remedy the breach within 30 days after the receipt of the request in writing.

In addition, the Bank enters into various outsourcing arrangements with unrelated parties in the areas of security, provision of electronic and brokerage services and others. The terms of these agreements are set in accordance with the Guideline on Outsourcing issued by AMCM under Circular N^o. 032/B/2009 – DSB (AMCM).

These arrangements are entered into with the objectives to facilitate the operation of the Bank, improve the quality and diversify the range of services provided to customers.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

By and on behalf of the Board

(signed on the original)

Yiu-Fai Kong (Eddie Kong)
(Chief Executive Officer and Director)

(signed on the original)

Gary Pak-Ling Wang
(Director)

Macau, 17 February 2015

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BANCO COMERCIAL DE MACAU, S. A.
(Incorporated in Macau with limited liability by shares)

We have audited the financial statements of Banco Comercial de Macau, S. A. ('Bank' or 'BCM') set out on pages 9 to 42, which comprise the balance sheet as at 31 December 2014, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the financial statements

The management is responsible for the preparation and the true and fair presentation of the financial statements in accordance with Financial Reporting Standards issued by the Government of the Macao Special Administrative Region. This responsibility includes designing, implementing and maintaining appropriate internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and keeping proper and accurate accounting records.

Auditor's responsibility

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

We conducted the audit in accordance with Auditing Standards and Technical Standards on Auditing issued by the Government of Macao Special Administrative Region. Those standards require that the auditor complies with relevant ethical requirements and plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit includes performing appropriate audit procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures are selected according to the auditor's professional judgment, 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 and true and fair presentation of the financial statements 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 the 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.

Audit opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of Banco Comercial de Macau, S. A. as at 31 December 2014 and of its operating results and cash flows for the year then ended in accordance with Financial Reporting Standards issued by the Government of the Macao Special Administrative Region. The accounting policies used in the preparation of the financial statements for the year ended 31 December 2014 are consistent with those used in the preceding year.

(signed on the original)

Cheung Pui Peng Grace
Registered Auditor
PricewaterhouseCoopers

Macau, 17 February 2015

FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

| | Note | 2014 | 2013 |
|---------------------------------------------------------|----------|-----------------------|-----------------------|
| Interest income | | 471,612 | 403,386 |
| Interest expense | | <u>(169,621)</u> | <u>(131,173)</u> |
| Net interest income | 4 | 301,991 | 272,213 |
| Fee and commission income | | 109,138 | 86,916 |
| Fee and commission expense | | <u>(61,049)</u> | <u>(42,389)</u> |
| Net fee and commission income | 5 | 48,089 | 44,527 |
| Dividend income | 6 | 1,468 | 1,435 |
| Net trading income | 7 | 16,998 | 12,879 |
| Other operating income | 8 | 8,310 | 7,626 |
| Operating income | | <u>376,856</u> | <u>338,680</u> |
| Operating expenses | 9 | (178,493) | (164,834) |
| Operating profit before bad debt provisions | | <u>198,363</u> | <u>173,846</u> |
| Loss on disposal of fixed assets | | (47) | (16) |
| Impairment loss on loans and advances to customers | 10 | (17,882) | (17,903) |
| Recoveries of loans and interest previously written off | | 2,001 | 2,160 |
| Profit before income tax | | <u>182,435</u> | <u>158,087</u> |
| Income tax expense | 11 | (21,838) | (18,901) |
| Profit for the year | | <u>160,597</u> | <u>139,186</u> |
| Attributable to: | | | |
| Equity holders of the Bank | | <u>160,597</u> | <u>139,186</u> |

The notes on pages 13 to 42 are an integral part of these financial statements.

FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

BALANCE SHEET AS AT 31 DECEMBER

| | Note | 2014 | 2013 |
|---------------------------------------------------------------------------|------|-------------------|-------------------|
| Assets | | | |
| Cash and balances with banks | 12 | 353,582 | 396,124 |
| Balance with AMCM | | 262,936 | 297,754 |
| AMCM monetary bills maturing within 12 months | | 948,112 | 608,255 |
| Placements with and loans and advances to banks maturing within 12 months | | 889,558 | 1,203,265 |
| Loans and advances to customers | 13 | 11,513,488 | 10,213,834 |
| Investment securities - Designated at FVTPL | | 10,115 | 4,375 |
| Investment securities - Available-for-sale | 16 | 245,336 | 18,703 |
| Investment securities - Held-to-maturity | 17 | 2,658,405 | 2,381,769 |
| Investment securities - Loans and receivables | 18 | - | 219,552 |
| Other investments | 19 | 37,943 | 37,931 |
| Intangible assets | 20 | 6,019 | 4,849 |
| Premises and other fixed assets | 21 | 95,064 | 101,798 |
| Deferred income tax assets | 22 | - | 1,598 |
| Other assets | 23 | 26,806 | 36,529 |
| Total assets | | 17,047,364 | 15,526,336 |
| Liabilities | | | |
| Balances and deposits from banks maturing within 12 months | | 272,246 | 582,466 |
| Deposits from customers | 24 | 15,276,055 | 13,578,985 |
| Certificates of deposit issued | 25 | - | 5,407 |
| Other liabilities | 26 | 55,125 | 91,166 |
| Current income tax liabilities | | 23,945 | 21,606 |
| Deferred income tax liabilities | 22 | 593 | - |
| Provisions | | 123 | 202 |
| Total liabilities | | 15,628,087 | 14,279,832 |
| Equity | | | |
| Share capital | 29 | 225,000 | 225,000 |
| Share premium | | 50,000 | 50,000 |
| Legal reserve | 30 | 200,042 | 186,124 |
| Available-for-sale investment revaluation reserve | | 19,766 | 7,992 |
| Retained earnings | | 924,469 | 777,388 |
| Total equity | | 1,419,277 | 1,246,504 |
| Total liabilities and equity | | 17,047,364 | 15,526,336 |

Approved and authorized for issue by the Board of Directors on 17 February 2015.

(signed on the original)

David Shou-Yeh Wong (Chairman)

(signed on the original)

Hon-Hing Wong (Derek Wong)

(signed on the original)

Gary Pak-Ling Wang

(signed on the original)

Harold Tsu-Hing Wong

(signed on the original)

Yiu-Fai Kong (Eddie Kong) (Chief Executive Officer)

(signed on the original)

Sou-Chao Chan (Kenneth Chan)

(signed on the original)

Alick Yuk-Fai Chiu

The notes on pages 13 to 42 are an integral part of these financial statements.

FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

| | Share Capital (Note 29) | Share Premium | Legal Reserve (Note 30) | Available-for- sale Investment Revaluation Reserve (‘AFS Reserve’) | Retained Earnings | Total Equity |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------|----------------------------|--------------------------------------------------------------------------------|----------------------|------------------|
| Balance as at 1 January 2013 | 225,000 | 50,000 | 177,108 | 1,061 | 647,218 | 1,100,387 |
| Available-for-sale investment revaluation | - | - | - | 5,974 | - | 5,974 |
| Exchange rate impact on historical cost of investments reclassified from available-for-sale to loans and receivables | - | - | - | (140) | - | (140) |
| Amortization of unrealized loss to income statement relating to available-for-sale investments reclassified to investment securities - loans and receivables | - | - | - | 2,042 | - | 2,042 |
| Tax impact of revaluation of available-for-sale investments | - | - | - | (945) | - | (945) |
| Transfer to legal reserve | - | - | 9,016 | - | (9,016) | - |
| Net profit for the year | - | - | - | - | 139,186 | 139,186 |
| Balance as at 31 December 2013 and 1 January 2014 before appropriations | 225,000 | 50,000 | 186,124 | 7,992 | 777,388 | 1,246,504 |
| Available-for-sale investment revaluation | - | - | - | 13,379 | - | 13,379 |
| Tax impact of revaluation of available-for-sale investments | - | - | - | (1,605) | - | (1,605) |
| Transfer to legal reserve | - | - | 13,918 | - | (13,918) | - |
| Contribution from shareholders | - | - | - | - | 402 | 402 |
| Net profit for the year | - | - | - | - | 160,597 | 160,597 |
| Balance as at 31 December 2014 before appropriations | 225,000 | 50,000 | 200,042 | 19,766 | 924,469 | 1,419,277 |

The notes on pages 13 to 42 are an integral part of these financial statements.

FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

| | 2014 | 2013 |
|-------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Cash flows from operating activities | | |
| Interest income received | 486,982 | 376,066 |
| Interest expense paid | (168,218) | (123,986) |
| Dividends received | 1,468 | 1,435 |
| Net fee and commission income received | 55,376 | 36,980 |
| Net trading income received | 15,282 | 25,865 |
| Recoveries of loans and interest previously written off | 2,001 | 2,160 |
| Other operating income received | 8,305 | 7,528 |
| Other operating expenses paid | (178,295) | (144,001) |
| Income tax paid | (18,913) | (12,221) |
| Net cash flows from operating activities before changes in operating assets and operating liabilities | 203,988 | 169,826 |
| Changes in operating assets and operating liabilities | | |
| Net (increase)/decrease in AMCM monetary bills with original maturity of more than 3 months and balance with AMCM | (84,265) | 329,101 |
| Net decrease in placements with and loans and advances to banks with original maturity of more than 3 months | 47,253 | 410,940 |
| Net increase in loans and advances to customers | (1,311,775) | (1,530,365) |
| Net decrease in other operating assets | 4,452 | 1,415 |
| Net (decrease)/increase in balances and deposits from banks | (310,423) | 365,280 |
| Net increase in deposits from customers and certificates of deposit issued | 1,689,802 | 1,633,830 |
| Net decrease in other operating liabilities | (17,332) | (17,170) |
| Net cash flows from operating assets and operating liabilities | 17,712 | 1,193,031 |
| Cash flows from investing activities | | |
| Purchase of intangible assets | (5,501) | (5,274) |
| Purchase of premises and other fixed assets | (5,904) | (11,974) |
| Proceeds from disposal of premises and other fixed assets | 5 | 98 |
| Purchase of held-to-maturity investments | (2,005,086) | (1,818,878) |
| Proceeds from redemption of held-to-maturity investments | 1,707,556 | 957,264 |
| Net cash flows used in investing activities | (308,930) | (878,764) |
| Net cash flows from financing activities | - | - |
| Net (decrease)/increase in cash and cash equivalents | (87,230) | 484,093 |
| Cash and cash equivalents at the beginning of the year | 1,662,549 | 1,178,456 |
| Cash and cash equivalents at the end of the year | 1,575,319 | 1,662,549 |
| Cash and cash equivalents comprise: | | |
| Cash and balances with banks | 279,575 | 391,541 |
| AMCM monetary bills and placements with and loans and advances to banks with original maturity up to 3 months | 1,295,744 | 1,271,008 |
| Total cash and cash equivalents as at 31 December | 1,575,319 | 1,662,549 |

The notes on pages 13 to 42 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

1 General information

Banco Comercial de Macau, S. A. (the 'Bank' or 'BCM') is incorporated and domiciled in Macau where it provides a wide range of financial services including retail, business and institutional banking. The Bank is a limited liability company by shares. The address of its registered office is at Avenida da Praia Grande N° 572, Macau.

In its retail banking activities, the Bank handles individual customers' deposits (current, savings and term deposit accounts) and provides consumer and housing loans, overdrafts, credit cards, insurance products and other banking services such as remittances.

In its commercial business and institutional oriented activities, the Bank handles current and term deposit accounts as well as property, business, project and trade finance facilities, bank guarantees and letters of credit for corporate, institutional and high net worth customers.

The Bank also provides wealth management products, insurance and stock trading services to various segments of its clientele.

BCM's immediate and ultimate holding companies are Dah Sing Bank, Limited ('DSB') and Dah Sing Financial Holdings Limited ('DSFH') respectively, both of which are incorporated and domiciled in Hong Kong. DSFH is listed on the Stock Exchange of Hong Kong Limited.

The financial regulatory authority is the Autoridade Monetaria de Macau ('AMCM').

These financial statements are presented in thousands of Macau Patacas (MOP), unless otherwise stated.

These financial statements have been approved for issue by the Board of Directors on 17 February 2015.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with the Financial Reporting Standards issued by the Government of Macau Special Administrative Region under Administrative Regulation N° 25/2005 on 9 December 2005 ('MFRS').

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

MFRS requires the following International Financial Reporting Standard ('IFRS') issued by the International Accounting Board (IASB) and International Accounting Standards ('IAS') issued by its predecessor International Accounting Standards Committee ('IASC') be applied in the preparation of financial statements:

| | |
|---------|-----------------------------------------------------------------|
| IFRS 1: | First-time adoption of IFRS |
| IAS 1: | Presentation of financial statements |
| IAS 7: | Cash flow statements |
| IAS 8: | Accounting policies, changes in accounting estimates and errors |
| IAS 10: | Events after the balance sheet date |
| IAS 12: | Income taxes |
| IAS 16: | Property, plant and equipment |
| IAS 17: | Leases |
| IAS 18: | Revenue |
| IAS 21: | The effects of changes in foreign exchange rates |
| IAS 23: | Borrowing costs |
| IAS 36: | Impairment of assets |
| IAS 37: | Provisions, contingent liabilities and contingent assets |
| IAS 38: | Intangible assets |

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments, measured at fair value, and financial assets designated as at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 Foreign currency translation

2.2.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Macau Patacas ('MOP') as the functional and presentation currency best reflecting the economic substance of the events relevant to the Bank.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.2 Foreign currency translation (continued)

2.2.2 Transactions and balances

Foreign transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in the carrying amount are recognized in equity.

Translation differences in the fair value of monetary securities denominated in foreign currency carried at fair value through profit or loss are reported in the income statement as part of the fair value gain or loss.

2.3 Interest income and expense

Interest income, the principal source of revenue, and interest expense, the main financial cost incurred by the Bank are recognized in the income statement for all instruments measured at amortized cost, available-for-sale securities and certain financial assets/liabilities designated at fair value through profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Interest income or expense arising from entering into interest rate swaps ('IRS'), recognized as off-balance sheet financial instruments, are also included in interest income or expense on a net basis.

Once a financial asset has been written down upon the recognition of a specific provision, interest is recognized on a cash basis in accordance with Notice N° 18/93 AMCM.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.4 Fee and commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

2.5 Dividend income

Dividends are recognized in the income statement when the Bank's right to receive payment has been established.

2.6 AMCM monetary bills

AMCM monetary bills are debt instruments issued by AMCM for which the Bank's management has the intention and ability to hold to maturity. Monetary bills are purchased at a discount and stated at amortized cost in the face of the balance sheet. Discounts are accreted up to maturity on a straight line basis, which approximates, due to relatively short tenors, the effective interest rate method, and reported as interest income in the income statement. The carrying amount of monetary bills shall include accrued interest.

2.7 Financial assets

The Bank classifies its financial assets in the following categories: financial assets designated at fair value through profit or loss ('FVTPL'), loans and receivables ('L&R'), held-to-maturity investments ('HTM'), and available-for-sale investments ('AFS').

Purchases and sales of financial assets are initially recognized on the trade date at fair value plus transaction costs. Financial assets are derecognized when the right to receive cash flows from the financial assets has expired or where the Bank has transferred substantially all risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.1 Financial assets designated at fair value through profit or loss (FVTPL)

A financial asset is typically designated at FVTPL at inception if it meets the following criteria:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring the financial assets or recognizing the gains and losses on them on different bases;
- it is managed and evaluated on a fair value basis, as it is the case of equity investments, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets is provided internally to the key management personnel such as the Board of Directors and Chief Executive Officer; or
- it contains one or more embedded derivatives where the characteristics and risks of the embedded derivatives are not closely related to the host contracts.

2.7.2 Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held-for-trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available-for-sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration. The carrying amount of loans and receivables shall include accrued interest.

2.7.3 Held-to-maturity investments (HTM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be treated and reclassified as available-for-sale. The carrying amount of held-to-maturity investments shall include accrued interest.

2.7.4 Available-for-sale investments (AFS)

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of other categories.

Available-for-sale investments are those intended to be held for an indefinite period of time, which, nevertheless, may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.4 Available-for-sale investments (AFS) (continued)

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity should be recognized in the income statement.

Interest of available-for-sale investments is recognized in the income statement. Dividends are recognized in the income statement when the Bank's right to receive payment is established.

2.7.5 Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables and held-to-maturity categories out of available-for-sale category if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.7.6 Recognition and measurement of financial assets

Purchases and sales of financial assets are recognized on trade date - the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets, which are carried at fair value through profit or loss, are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership and the transfer qualifies for de-recognition.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.6 Recognition and measurement of financial assets (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost less any impairment loss using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time the cumulative gain or loss previously recognized in the equity is recognized in the income statement. However, interest calculated using the effective interest method and foreign gains and losses on monetary assets classified as available-for-sale are recognized in the income statement.

2.7.7 Other investments

Miscellaneous investments are classified as other investments and stated at cost less impairment.

2.8 Impairment of financial assets

Impairment of financial assets is governed in Macau by Notice N^o 18/93 AMCM and applies solely to the Bank's exposures to non-bank customers.

A financial asset is impaired when the payment of interest or commission thereon or the payment of principal is past due for more than 3 months. When a financial asset is impaired, a minimum specific provision needs to be set up. The amount is determined based on the financial asset carrying amount, net of the realizable value of any existing and duly formalized tangible collateral, also taking into consideration the time period in which payments have been delayed, in the following manner:

- delayed over 3 months but less than or equal to 12 months: 40%;
- delayed over 12 months but less than or equal to 18 months: 80%;
- delayed over 18 months: 100%.

Where management considers it necessary, additional provisions may be made on impaired financial assets if the expected recovery amount is less than the carrying value of the loan net of specific provisions.

For the assets representing advances to non-bank customers not included above, i.e. which are not past due for more than 3 months, a general provision of not less than 1% of the aggregated value needs to be set aside. General provisions also apply to certain off-balance sheet instruments such as bank guarantees and similar contracts.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.8 Impairment of financial assets (continued)

Specific and general provisions are recognized in the income statement and deducted from the carrying amount of impaired financial assets in the balance sheet.

The Bank assesses at each balance sheet date whether there is objective evidence that its AFS, L&R and HTM securities are impaired. These financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2.9 Financial liabilities

Financial liabilities are initially recognized at fair value net of transaction costs incurred and subsequently stated at amortized cost. Any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the life of the financial liabilities using the effective interest method.

2.10 Derivative financial instruments

The Bank enters into derivative transactions in the foreign exchange and interest rate markets, namely foreign exchange contracts and interest rate swaps ('IRS'), with the principal aim of hedging other transactions, either assets or liabilities. IRS are treated as off-balance sheet financial instruments, with interest income or expenses recorded in the income statement. The interest income and expenses on IRS are settled on a net basis.

Accordingly, interest income and expense has been presented on a net basis in the income statement. Interest receivable and payable has also been presented on a net basis in the balance sheet.

Unrealized gains or losses on forward foreign exchange contracts which are marked to market are recognized in the income statement and included, respectively, in other assets or other liabilities in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.11 Repossessed assets

Repossessed collateral assets are accounted as 'Assets held for sale' and reported in 'Other assets' and the relevant loans are derecognized. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

2.12 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three years.

Cost associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software products so that it will be available for use;
- management intends to complete the software products and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software products will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over 3 years.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.13 Premises and other fixed assets

Premises and other fixed assets are stated at historical cost less depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items of property and equipment. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of premises and other tangible fixed assets is calculated using the straight-line method to allocate the cost over their estimated useful lives, as follows:

| | | |
|--------------------------------------------|---------|------------|
| • Buildings | 2% | 50 Years |
| • Heavy repairs and improvements | 33.3% | 3 Years |
| • Computer equipment (hardware) | 25% | 4 Years |
| • Motor vehicles | 20% | 5 Years |
| • Furniture, fittings and other equipments | 10%-25% | 4-10 Years |

No depreciation is charged in respect of freehold land and items of property and equipment under development.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposal are determined by comparing proceeds with carrying amount. These are recognized in the income statement as other operating expenses.

2.14 Employee benefits

The Bank sponsors a defined contribution pension plan, which is funded by payments by the Bank and its employees to an insurance company, which administers the plan. The plan is registered under and supervised by AMCM. The plan was established and is governed in accordance with Macau Decree-Law 6/99/M of 8 February 1999. Contributions to the plan are recognized as employee benefit expense when they fall due. The Bank has no further payment obligations once the contributions have been made.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.14 Employee benefits (continued)

Upon an employee's resignation, the Bank's payments to the defined contribution pension plan may be forfeited by the employee depending on their length of service with the Bank. Any amounts forfeited by the employees are maintained in a residual account with the pension provider and are used to offset the Bank's future contributions.

The Bank also offers healthcare insurance-based benefits to its employees who are providing service to the Bank. Healthcare benefits are prepaid annually when renewing the insurance policy and charged over the next 12 months.

The Bank previously sponsored a defined benefit plan. The provision recognized in the balance sheet is made in respect to a remaining liability of this defined benefit pension plan and is based on actuarial valuation. The liability is reduced when payments are made to the retired employees.

2.15 Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.16 Current and deferred income tax (continued)

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable benefits will be available against which these losses can be utilized.

2.17 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor) including up-front payment made for leasehold land and land use rights, are charged to the income statement on a straight-line basis over the period of the lease.

Where the Bank is a lessor under operating leases, assets leased out are included in premises and other fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned premises and other fixed assets. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.18 Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with banks and AMCM, items in course of collection from other banks, AMCM monetary bills, and placements with and loans and advances to banks with original maturities of 3 months or less and are subject to insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

2 Summary of significant accounting policies (continued)

2.19 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make stipulated payments to reimburse the holder for an incurred loss because a third party failed to fulfill its obligations through either specified payments or the warrant of specific projects.

Financial guarantees are carried off balance sheet.

2.20 Balance with AMCM

In accordance with AMCM Notice N° 6/93, the Bank is required to maintain a minimum regulatory deposit balance with AMCM for liquidity purposes. The required weekly average of the MOP deposit account should not be less than 70% of the following:

- 3% on all liabilities repayable on demand;
- 2% on all liabilities repayable within 3 months (inclusive), except for those already counted above; and
- 1% on liabilities repayable beyond 3 months.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

3 Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Impairment allowances on loans and advances to customers

The Bank periodically reviews its loan portfolios to identify and assess bad and doubtful debts at least on a quarterly basis. In determining whether a provision should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Specific provisions are made against individual loans and advances as and when the management has doubts on the ultimate recoverability of the principal or interest in full. The provision is made to reduce the carrying value of advances to customers, net of any collateral, to the expected net realizable value based on the assessment of the management of the potential losses on those identified advances, and with reference to the requirements of AMCM.

On assessing general provision, the Bank refers to the requirements of AMCM and applies judgment on the external credit environment to determine the appropriate level of general provision.

3.2 Fair value of financial instruments

Fair value is defined as the value at which positions could be closed or sold in a transaction with a willing and knowledgeable counterparty. The majority of the Bank's financial instruments reported at fair value are based on quoted and observable market prices. There is a risk that quoted market prices may not be representative of fair value in illiquid markets.

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

4 Net interest income

Interest income

| | 2014 | 2013 |
|-------------------------------------------------|----------------|----------------|
| Interest received and receivable on: | | |
| Current account with AMCM | 22 | 12 |
| AMCM monetary bills | 3,186 | 5,392 |
| Placements with and loans and advances to banks | 25,391 | 19,736 |
| Investment securities | 65,992 | 57,227 |
| Loans and advances to customers | 375,355 | 319,636 |
| Other interest income | 1,666 | 1,383 |
| Total interest income | 471,612 | 403,386 |

Interest expense

Interest paid and payable on:

| | | |
|------------------------------------------------------------|----------------|----------------|
| Balances and deposits from banks | 2,720 | 2,481 |
| Deposits from customers and certificates of deposit issued | 155,813 | 118,763 |
| Other interest expense | 11,088 | 9,929 |
| Total interest expense | 169,621 | 131,173 |

| | | |
|----------------------------|----------------|----------------|
| Net interest income | 301,991 | 272,213 |
|----------------------------|----------------|----------------|

5 Net fee and commission income

Fee and commission income

| | 2014 | 2013 |
|----------------------------------------|----------------|---------------|
| Fee and commission income from: | | |
| Bank guarantees granted | 2,591 | 2,586 |
| Trade finance | 1,832 | 1,847 |
| Securities trading and custody | 7,022 | 5,764 |
| Commitment fees | 5,796 | 6,633 |
| Credit card operations | 77,322 | 56,432 |
| Cheques and payment orders issued | 1,835 | 1,587 |
| Insurance sales | 7,341 | 6,584 |
| Other fee and commission income | 5,399 | 5,483 |
| Total fee and commission income | 109,138 | 86,916 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

5 Net fee and commission income (continued)

Fee and commission expense

| | 2014 | 2013 |
|-----------------------------------------|---------------|---------------|
| Fee and commission expense on: | | |
| Custodian services | 34 | 40 |
| Auto finance | 1,895 | 1,534 |
| Correspondent banks | 564 | 567 |
| Securities trading | 2,992 | 2,485 |
| Credit card related expenses | 55,564 | 37,763 |
| Total fee and commission expense | 61,049 | 42,389 |
| Net fee and commission income | 48,089 | 44,527 |

6 Dividend income

| | 2014 | 2013 |
|------------------------------|--------------|--------------|
| Listed companies | 117 | 40 |
| Unlisted companies | 1,351 | 1,395 |
| Total dividend income | 1,468 | 1,435 |

7 Net trading income

| | 2014 | 2013 |
|-----------------------------------------------------|---------------|---------------|
| Net trading income | | |
| - Foreign exchange | 11,261 | 10,339 |
| - Fair value change on investments carried at FVTPL | 5,737 | 2,540 |
| Net trading income | 16,998 | 12,879 |

8 Other operating income

| | 2014 | 2013 |
|-------------------------------------|--------------|--------------|
| Services rendered to third parties | 797 | 731 |
| Property rental | 1,764 | 1,476 |
| Other operating income | 5,749 | 5,419 |
| Total other operating income | 8,310 | 7,626 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

9 Operating expenses

| | 2014 | 2013 |
|--------------------------------------------------------|----------------|----------------|
| Staff costs: | | |
| Directors' remuneration | 10,061 | 8,562 |
| Wages, salaries and bonus | 92,671 | 87,309 |
| Pension costs | 4,610 | 5,417 |
| Others | 8,019 | 6,822 |
| Property costs: | | |
| Rental of premises | 5,843 | 5,083 |
| Other property costs | 1,420 | 1,333 |
| Amortization and depreciation: | | |
| Amortization of intangible assets | 3,127 | 2,259 |
| Depreciation for premises and other fixed assets | 13,815 | 11,675 |
| Amortization for leasehold land and land use rights | 27 | 52 |
| Other operating expenses: | | |
| Advertising and promotion expenses | 4,273 | 3,761 |
| Auditor's remuneration | 912 | 811 |
| Computer expenses | 12,004 | 10,865 |
| Other operating expenses | 21,711 | 20,885 |
| Total operating expenses | 178,493 | 164,834 |

10 Impairment losses on loans and advances to customers

| | 2014 | 2013 |
|-----------------------------------------------------------------------|---------------|---------------|
| Specific provisions | | |
| Charged to the income statement | 5,233 | 3,604 |
| Recoveries | (843) | (885) |
| Net charge to income statement | 4,390 | 2,719 |
| General provisions | | |
| Charged to the income statement | 16,478 | 16,991 |
| Recoveries | (2,986) | (1,807) |
| Net charge to income statement | 13,492 | 15,184 |
| Total impairment losses on loans and advances to customers | 17,882 | 17,903 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

11 Income tax expense

Current tax comprises of Macao complementary tax. According to Macao complementary tax law, Macao complementary tax is levied at progressive rates ranging from 3% to 9% on the taxable income above MOP 32,000 but below MOP 300,000, and thereafter at a fixed rate at 12%. For 2013 and 2014, a special tax incentive is provided to effect that tax free income threshold is increased from MOP 32,000 to MOP 300,000 and the profit thereafter being taxed at a fixed rate of 12%. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the Macao complementary tax rate applicable to the profits of the Bank and as follows:

| | 2014 | 2013 |
|-----------------------------|---------------|---------------|
| Current income tax expense | 21,252 | 18,841 |
| Deferred income tax expense | 586 | 60 |
| Total tax expense | 21,838 | 18,901 |

| | 2014 | 2013 |
|----------------------------------------------|----------------|----------------|
| Profit before tax | 182,435 | 158,087 |
| Tax calculated at 12% (2013: 12%) | 21,892 | 18,970 |
| Under provision in previous years | 57 | 46 |
| Effect of the progressive tax rate below 12% | (17) | (17) |
| Special complementary tax incentive | (19) | (19) |
| Income not subject to tax | (162) | (164) |
| Expenses not deductible for tax purposes | 87 | 85 |
| Total tax expense | 21,838 | 18,901 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

12 Cash and balances with banks

| As at 31 December | 2014 | 2013 |
|---------------------|----------------|----------------|
| Cash | 207,395 | 193,109 |
| Balances with banks | 146,187 | 203,015 |
| | <u>353,582</u> | <u>396,124</u> |

13 Loans and advances to customers

| As at 31 December | 2014 | 2013 |
|--------------------------------------------|-------------------|-------------------|
| Loans and advances to customers | 11,650,443 | 10,334,674 |
| Specific provisions | (17,387) | (14,764) |
| General provisions | (119,568) | (106,076) |
| Net loans and advances to customers | <u>11,513,488</u> | <u>10,213,834</u> |

| As at 31 December | 2014 | 2013 |
|--------------------------------------------|-------------------|-------------------|
| Maturing within 12 months | 1,750,902 | 1,406,854 |
| Maturing beyond 12 months | 9,762,586 | 8,806,980 |
| Net loans and advances to customers | <u>11,513,488</u> | <u>10,213,834</u> |

14 Movement of provisions for loans and advances to customers

| | Specific provisions | General provisions | Total provisions |
|---------------------------------------|---------------------|--------------------|------------------|
| Balance as at 1 January 2013 | 14,377 | 90,892 | 105,269 |
| Amounts written off | (2,332) | - | (2,332) |
| Net charge for the year | 2,719 | 15,184 | 17,903 |
| Balance as at 31 December 2013 | <u>14,764</u> | <u>106,076</u> | <u>120,840</u> |
| Balance as at 1 January 2014 | 14,764 | 106,076 | 120,840 |
| Amounts written off | (1,767) | - | (1,767) |
| Net charge for the year | 4,390 | 13,492 | 17,882 |
| Balance as at 31 December 2014 | <u>17,387</u> | <u>119,568</u> | <u>136,955</u> |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

15 Derivative financial instruments

| Foreign exchange derivatives as at 31 December | 2014 | 2013 |
|--------------------------------------------------------------------------|------------------|------------------|
| Currency forwards purchase | 194,971 | 257,364 |
| Currency forwards sale | (193,436) | (257,500) |
| Currency forward position | 1,535 | (136) |
| Interest rate swaps (IRS) as at 31 December - notional amount | 140,782 | 145,748 |
| Currency options purchased (notional) | 275,832 | 461,779 |
| Currency options written (notional) | (275,832) | (461,779) |

16 Investment securities – Available-for-sale

On 5 June 2014, the Bank reclassified all investments in securities included in the loans and receivable category that qualified for recognition as available-for-sale out of the loans and receivables category. The fair value and carrying value of these financial assets at the date of reclassification were MOP227,302,000 and MOP219,103,000 respectively. The Bank did not reclassify any financial assets in the year ended 31 December 2013.

| As at 31 December | 2014 | 2013 |
|------------------------------|----------------|---------------|
| Debt securities (listed) | 180,587 | - |
| Debt securities (unlisted) | 42,718 | - |
| | 223,305 | - |
| Equity securities (unlisted) | 22,031 | 18,703 |
| Total AFS investments | 245,336 | 18,703 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

17 Investment securities – Held-to-maturity

| As at 31 December | 2014 | 2013 |
|--------------------------------------------------|-------------------------|-------------------------|
| Debt securities (listed) | 494,720 | 570,744 |
| Debt securities (unlisted) | <u>2,163,685</u> | <u>1,811,025</u> |
| | <u>2,658,405</u> | <u>2,381,769</u> |
| | | |
| Market value of the above debt securities | <u>2,643,749</u> | <u>2,375,406</u> |
| | | |
| Maturing within 12 months | 2,209,904 | 1,734,889 |
| Maturing beyond 12 months | <u>448,501</u> | <u>646,880</u> |
| | <u>2,658,405</u> | <u>2,381,769</u> |

18 Investment securities – Loans and receivables

Certain investment securities were reclassified from AFS to L&R category on 1 July 2008. Unrealized losses recognized in equity at the reclassification date are amortized to the income statement on a time-apportioned straight-line basis to the date of maturity.

For these investments which remained outstanding as at 5 June 2014, they were reclassified to AFS category on the same date. Refer to Note 16 for details.

| As at 31 December | 2014 | 2013 |
|--------------------------------------------------|-------------|----------------|
| Debt securities maturing beyond 12 months | <u>-</u> | <u>219,552</u> |
| | | |
| Market value of the above debt securities | <u>-</u> | <u>222,180</u> |

19 Other investments

| As at 31 December | 2014 | 2013 |
|--------------------------------------------|---------------|---------------|
| Unlisted equity securities, at cost | <u>37,943</u> | <u>37,931</u> |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

20 Intangible assets

| | Software and banking systems |
|-------------------------------------------------------|---------------------------------------------|
| Opening net book amount as at 1 January 2013 | 4,663 |
| Additions | 5,274 |
| Disposals/reclassification | (2,849) |
| Amortization charged | (2,259) |
| Amortization written off | 20 |
| Closing net book amount as at 31 December 2013 | 4,849 |
| | |
| As at 31 December 2013 | |
| Cost | 39,584 |
| Accumulated amortization | (34,735) |
| Net book amount | 4,849 |
| | |
| Opening net book amount as at 1 January 2014 | 4,849 |
| Additions | 5,501 |
| Disposals/reclassification | (1,204) |
| Amortization charged | (3,127) |
| Closing net book amount as at 31 December 2014 | 6,019 |
| | |
| As at 31 December 2014 | |
| Cost | 43,881 |
| Accumulated amortization | (37,862) |
| Net book amount | 6,019 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

21 Premises and other fixed assets

| | Premises | Premises improvements | Furniture and equipment | Total |
|-------------------------------------------------------|---------------|-----------------------|-------------------------|----------------|
| As at 1 January 2013 | | | | |
| Cost | 107,080 | 52,427 | 66,062 | 225,569 |
| Accumulative depreciation | (29,754) | (42,205) | (54,774) | (126,733) |
| Net book amount | 77,326 | 10,222 | 11,288 | 98,836 |
| | | | | |
| Opening net book amount as at 1 January 2013 | 77,326 | 10,222 | 11,288 | 98,836 |
| Additions | - | 5,746 | 9,057 | 14,803 |
| Write-offs/disposals | - | (1,576) | (5,498) | (7,074) |
| Depreciation charged | (2,164) | (4,989) | (4,574) | (11,727) |
| Depreciation written off on disposal | - | 1,571 | 5,389 | 6,960 |
| Closing net book amount as at 31 December 2013 | 75,162 | 10,974 | 15,662 | 101,798 |
| | | | | |
| As at 31 December 2013 | | | | |
| Cost | 107,080 | 56,597 | 69,621 | 233,298 |
| Accumulated depreciation | (31,918) | (45,623) | (53,959) | (131,500) |
| Net book amount | 75,162 | 10,974 | 15,662 | 101,798 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

21 Premises and other fixed assets (continued)

| | Premises | Premises improvements | Furniture and equipment | Total |
|-------------------------------------------------------|---------------|-----------------------|-------------------------|----------------|
| Opening net book amount as at 1 January 2014 | 75,162 | 10,974 | 15,662 | 101,798 |
| Additions | - | 3,255 | 3,905 | 7,160 |
| Write-offs/disposals | - | (8) | (2,121) | (2,129) |
| Depreciation charged | (2,139) | (6,149) | (5,553) | (13,841) |
| Depreciation written off on disposal | - | 8 | 2,068 | 2,076 |
| Closing net book amount as at 31 December 2014 | 73,023 | 8,080 | 13,961 | 95,064 |

As at 31 December 2014

| | | | | |
|--------------------------|---------------|--------------|---------------|---------------|
| Cost | 107,080 | 59,844 | 71,405 | 238,329 |
| Accumulated depreciation | (34,057) | (51,764) | (57,444) | (143,265) |
| Net book amount | 73,023 | 8,080 | 13,961 | 95,064 |

The net book amount of premises comprises:

| | 2014 | 2013 |
|-------------------------------------------------------------------|---------------|---------------|
| Leaseholds in Macau on medium-term lease (between 10 to 15 years) | 69,912 | 71,972 |
| Freeholds in Macau | 3,111 | 3,190 |
| Net book amount | 73,023 | 75,162 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

22 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

| As at 31 December | 2014 | 2013 |
|--------------------------------------------------------------------------------------------|--------------|--------------|
| Deferred income tax (liabilities)/assets to be settled/recovered after more than 12 months | <u>(593)</u> | <u>1,598</u> |

The net movement on the deferred income tax (liability)/asset account was as follows:

| | | |
|------------------------------------|---------------------|---------------------|
| As at 1 January | 1,598 | 2,603 |
| Recognized in the income statement | (586) | (60) |
| Recognized in equity | (1,605) | (945) |
| As at 31 December | <u>(593)</u> | <u>1,598</u> |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

22 Deferred income tax (continued)

Deferred income tax assets

| | Losses on investments carried at FVTPL | Available-for- sale investment revaluation reserve | Total |
|--------------------------------------------|-------------------------------------------------|-------------------------------------------------------------|--------------|
| As at 1 January 2013 | 1,151 | 1,452 | 2,603 |
| (Charged)/credited to the income statement | (305) | 245 | (60) |
| Charged to equity | - | (945) | (945) |
| As at 31 December 2013 | 846 | 752 | 1,598 |
| | | | |
| As at 1 January 2014 | 846 | 752 | 1,598 |
| (Charged)/credited to the income statement | (689) | 103 | (586) |
| Charged to equity | - | (1,605) | (1,605) |
| As at 31 December 2014 | 157 | (750) | (593) |

The deferred income tax charged to equity during the year was:

| | 2014 | 2013 |
|---------------------------------------------------------------------------------------------------------------|----------------|--------------|
| Revaluation of available-for-sale investments | (1,605) | (717) |
| Amortization of loss on loans and receivables investments reclassified from available-for-sale investments | - | (228) |
| | (1,605) | (945) |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

23 Other assets

| As at 31 December | 2014 | 2013 |
|-------------------------------------|---------------|---------------|
| Accounts receivable and prepayments | 10,609 | 15,880 |
| Others | 16,197 | 20,649 |
| | <u>26,806</u> | <u>36,529</u> |

24 Deposits from customers

| As at 31 December | 2014 | 2013 |
|--------------------------------------|-------------------|-------------------|
| Current deposit accounts | 2,380,514 | 2,069,115 |
| Savings deposit accounts | 3,491,648 | 3,075,930 |
| Time deposit accounts | 9,403,893 | 8,433,940 |
| Total deposits from customers | <u>15,276,055</u> | <u>13,578,985</u> |

| As at 31 December | 2014 | 2013 |
|---------------------------|-------------------|-------------------|
| Maturing within 12 months | 15,275,341 | 13,578,655 |
| Maturing beyond 12 months | 714 | 330 |
| | <u>15,276,055</u> | <u>13,578,985</u> |

25 Certificates of deposit issued

| As at 31 December | 2014 | 2013 |
|---------------------------|-------------|--------------|
| Maturing within 12 months | - | 5,407 |
| | <u>-</u> | <u>5,407</u> |

26 Other liabilities

| As at 31 December | 2014 | 2013 |
|-------------------------------------|---------------|---------------|
| Accrued expenses and other payables | 17,215 | 36,339 |
| Deferred income | 2,805 | 2,470 |
| Others | 35,105 | 52,357 |
| | <u>55,125</u> | <u>91,166</u> |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

27 Contingent liabilities and commitments

As at 31 December 2014 and 2013, the Bank did not have any capital commitments.

| Credit commitments as at 31 December | 2014 | 2013 |
|---------------------------------------------|------------------|------------------|
| Bank guarantees | 303,699 | 285,116 |
| Trade related contingencies | 71,701 | 57,725 |
| Other commitments | 1,609,173 | 1,588,396 |
| Total credit commitments | 1,984,573 | 1,931,237 |

| Other commitments as at 31 December | 2014 | 2013 |
|--------------------------------------------|-------------|-------------|
| Forward forward deposits placed | 172,927 | - |

| Operating lease commitments as at 31 December | 2014 | 2013 |
|------------------------------------------------------|---------------|---------------|
| Less than 12 months | 5,993 | 5,777 |
| Between 1 and 5 years | 6,186 | 9,179 |
| Total operating lease commitments | 12,179 | 14,956 |

28 Related party transactions

The Bank is controlled by Dah Sing Bank, Limited ('DSB', the immediate holding company), a licensed bank incorporated in Hong Kong, which directly owns 78% of the equity of the Bank. Other shareholders are DSB BCM (1) Limited (11%) and DSB BCM (2) Limited (11%), both are wholly owned subsidiaries of DSB. The ultimate holding company of the Bank is Dah Sing Financial Holdings Limited, a company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong. During the year, DSB transferred syndicated loans of MOP 157 million to the Bank. The Bank also transacts with Macau Insurance Company Limited (Macau) and Macau Life Insurance Company Limited (Macau), and Dah Sing Life Assurance Company Limited, which are fellow subsidiaries under Dah Sing Financial Holdings Limited.

The following transactions were carried out with related parties:

Immediate holding company

| Balances as at 31 December | 2014 | 2013 |
|--------------------------------------------------------------|-------------|-------------|
| Balances and placements with and loans and advances to banks | 910,138 | 1,219,579 |
| Investment securities – held-to-maturity | 103,736 | 621,544 |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

28 Related party transactions (continued)

Immediate holding company (continued)

| Balances as at 31 December | 2014 | 2013 |
|-------------------------------------------------------------|----------------|----------------|
| Liabilities: | | |
| Balances and deposits from banks | 272,142 | 582,195 |
| Payables or deferred income: | | |
| Interest on interest rate swaps | 1,647 | 1,738 |
| Management fee | 2,566 | 25,192 |
| Other payables or deferred income | 1,272 | 1,217 |
| Off balance sheet items | | |
| Interest rate swaps (notional amount) | 140,782 | 145,748 |
| Currency options (notional amount) | 275,832 | 461,779 |
| | <u>275,832</u> | <u>461,779</u> |
| For the year ended 31 December | | |
| | 2014 | 2013 |
| Income: | | |
| Interest on placements with and loans and advances to banks | 19,415 | 17,195 |
| Interest on investment securities held-to-maturity | 2,798 | 7,045 |
| Other operating income/management fee | 74 | 7 |
| Expenses: | | |
| Interest on balances and deposits from banks | 2,711 | 2,455 |
| Interest on interest rate swaps (net) | 6,796 | 5,559 |
| Other operating expense / management fee | 1,364 | 6,923 |
| | <u>1,364</u> | <u>6,923</u> |
| Fellow subsidiaries | | |
| | 2014 | 2013 |
| Balances as at 31 December | | |
| Receivables or prepaid expenses: | | |
| Other receivables or prepaid expenses | 977 | 922 |
| Liabilities: | | |
| Deposits from customers | 654,877 | 500,191 |
| | <u>654,877</u> | <u>500,191</u> |

NOTES TO THE FINANCIAL STATEMENTS

All amounts in thousands of Macau Patacas (MOP) unless otherwise stated

28 Related party transactions (continued)

Fellow subsidiaries (continued)

| For the year ended 31 December | 2014 | 2013 |
|-------------------------------------------|--------------|--------------|
| Income: | | |
| Fee and commission and operating income | 10,544 | 9,369 |
| Expenses: | | |
| Interest on deposits from customers | 6,590 | 5,878 |
| Fee and commission and operating expenses | <u>3,226</u> | <u>3,361</u> |

29 Share capital

| | 2014 | 2013 |
|--------------------------------------------------|----------------|----------------|
| Authorized 900,000 shares at MOP 250 each | <u>225,000</u> | <u>225,000</u> |
| Issued and fully paid: | 2014 | 2013 |
| Ordinary shares of MOP 250 each | | |
| As at 1 January and 31 December | | |
| Number of shares (thousand) | 900 | 900 |
| Share capital | <u>225,000</u> | <u>225,000</u> |

30 Legal reserves

Movements in legal reserves are included in the statement of changes in equity on page 11 of the financial statements.

The legal reserve represents the amount set aside from retained earnings and is not distributable to the Bank's shareholders. Article 60^o of the Macau Financial System Act requires credit institutions incorporated in Macau transfer at least 20% of their net annual profits to their legal reserve account until that fund amounts to half of the share capital. Once the amount referred to in the preceding paragraph has been reached, credit institutions shall transfer at least 10% of their annual net profits to the legal reserve account until the reserve fund is equal to the share capital.