

BANCO COMERCIAL DE MACAU, S. A.

**REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

CONTENTS

Note	Description	Page
	Report of the Board of Directors for the year ended 31 December 2016	4
	Independent Auditor's Report to the Shareholders	7
	Income Statement	9
	Balance Sheet	10
	Statement of Changes in Equity	11
	Cash Flow Statement	12
	Notes to the financial statements	13
1	General information	13
2	Summary of significant accounting policies	13
2.1	Basis of preparation	13
2.2	Foreign currency translation	14
	2.2.1 Functional and presentation currency	14
	2.2.2 Transactions and balances	15
2.3	Interest income and expense	15
2.4	Fee and commission income and expense	16
2.5	Dividend income	16
2.6	AMCM monetary bills	16
2.7	Financial assets	16
	2.7.1 Financial assets designated at fair value through profit or loss (FVTPL)	17
	2.7.2 Held-to-maturity investments (HTM)	17
	2.7.3 Available-for-sale investments (AFS)	17
	2.7.4 Reclassification of financial assets	18
	2.7.5 Recognition and measurement of financial assets	18
	2.7.6 Other investments	18
2.8	Impairment of financial assets	19
2.9	Financial liabilities	20
2.10	Derivative financial instruments	20
2.11	Repossessed assets	20
2.12	Intangible assets	21
2.13	Premises and other fixed assets	22
2.14	Employee benefits	22
2.15	Provisions	23
2.16	Current and deferred income tax	23
2.17	Operating Leases	24
2.18	Cash and cash equivalents	24
2.19	Dividend	24
2.20	Financial guarantee contracts	25
2.21	Balance with AMCM	25
3	Critical accounting estimates and judgments	25
3.1	Impairment allowances on loans and advances to customers	25
3.2	Fair value of financial instruments	26
4	Net interest income	26
5	Net fee and commission income	26
6	Dividend income	27
7	Net trading income	27
8	Other operating income	27

CONTENTS (continued)

9	Operating expenses	28
10	Impairment losses on loans and advances to customers	28
11	Income tax expense	29
12	Dividend	29
13	Cash and balances with banks	29
14	Loans and advances to customers	30
15	Movement of provisions for loans and advances to customers	30
16	Derivative financial instruments	30
17	Investment securities – Available-for-sale	31
18	Investment securities – Held-to-maturity	31
19	Other investments	31
20	Intangible assets	32
21	Premises and other fixed assets	33
22	Deferred income tax	35
23	Other assets	37
24	Deposits from customers	37
25	Other liabilities	37
26	Contingent liabilities and commitments	38
27	Related party transactions	38
28	Share capital	40
29	Legal reserves	41
30	Notes to cash flow statement	41

BANCO COMERCIAL DE MACAU, S. A.
REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors of Banco Comercial de Macau, S. A. (the 'Bank' or 'BCM') submits their report together with the audited financial statements for the year ended 31 December 2016.

Principal activities

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

Results and appropriations

The results of the Bank for the year ended 31 December 2016 are set out in the Income Statement on page 9.

The Board of Directors recommends the payment of a dividend of MOP 50,000,000 (2015: Nil).

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 2016

(Continued)

Directors

The following persons were appointed as Directors at the Annual General Meeting held on 22 March 2016 for the triennium 2016-2018 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 is 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 2016

(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 Autoridade Monetaria de Macau ('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, 20 February 2017

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 41, which comprise the balance sheet as at 31 December 2016, 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.

Directors' responsibility for the financial statements

The Directors are 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 directors, 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.

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

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 2016 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 2016 are consistent with those used in the preceding year.

(signed on the original)
Cheung Pui Peng Grace
Registered Auditor
PricewaterhouseCoopers

Macau, 20 February 2017

FINANCIAL STATEMENTS

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Note	2016	2015
Interest income		524,020	521,858
Interest expense		<u>(160,546)</u>	<u>(182,900)</u>
Net interest income	4	363,474	338,958
Fee and commission income		96,585	105,396
Fee and commission expense		<u>(55,435)</u>	<u>(56,951)</u>
Net fee and commission income	5	41,150	48,445
Dividend income	6	1,511	1,592
Net trading income	7	17,148	19,678
Other operating income	8	9,467	9,146
Operating income		<u>432,750</u>	<u>417,819</u>
Operating expenses	9	(193,689)	(186,519)
Operating profit before bad debt provisions		<u>239,061</u>	<u>231,300</u>
(Loss)/gain on disposal of premises and other fixed Assets		(305)	7
Impairment losses on loans and advances to Customers	10	(9,513)	(9,238)
Recoveries of loans and interest previously written off		2,766	2,500
Profit before income tax		<u>232,009</u>	<u>224,569</u>
Income tax expense	11	(27,771)	(26,775)
Profit for the year		<u>204,238</u>	<u>197,794</u>
Attributable to:			
Shareholders of the Bank		<u>204,238</u>	<u>197,794</u>
Dividends			
Proposed dividend	12	<u>50,000</u>	<u>-</u>

The notes on pages 13 to 41 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	2016	2015
Assets			
Cash and balances with banks	13	797,901	396,978
Balance with AMCM		314,958	372,201
AMCM monetary bills maturing within 12 months		2,473,862	2,054,168
Placements with and loans and advances to banks maturing within 12 months		1,592,147	1,418,348
Loans and advances to customers	14	12,771,893	12,125,304
Investment securities - Designated at FVTPL		21,771	16,993
Investment securities - Available-for-sale	17	162,106	204,773
Investment securities - Held-to-maturity	18	960,040	1,564,921
Other investments	19	37,935	37,919
Intangible assets	20	4,207	4,707
Premises and other fixed assets	21	85,471	88,274
Other assets	23	70,655	21,745
Total assets		19,292,946	18,306,331
Liabilities			
Balances and deposits from banks maturing within 12 months		353,335	198,482
Deposits from customers	24	16,986,181	16,401,593
Other liabilities	25	99,467	58,216
Current income tax liabilities		27,609	27,271
Deferred income tax liabilities	22	3,044	2,394
Provisions		171	250
Total liabilities		17,469,807	16,688,206
Equity			
Share capital	28	225,000	225,000
Share premium		50,000	50,000
Legal reserve	29	225,000	216,102
Available-for-sale investment revaluation reserve		21,041	20,471
Reserve for share-based compensation		958	-
Retained earnings		1,301,140	1,106,522
Total equity		1,823,139	1,618,125
Total liabilities and equity		19,292,946	18,306,331

Approved and authorized for issue by the Board of Directors on 20 February 2017.

[\(signed on the original\)](#)

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 41 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 28)	Share Premium	Legal Reserve (Note 29)	Available-for- sale Investment Revaluation Reserve (‘AFS Reserve’)	Reserve for Share-based Compensation	Retained Earnings	Total Equity
Balance as at 1 January 2015	225,000	50,000	200,042	19,766	-	924,066	1,419,277
Available-for-sale investment revaluation	-	-	-	801	-	-	801
Tax impact of revaluation of available-for-sale investments	-	-	-	(96)	-	-	(96)
Transfer to legal reserve	-	-	16,060	-	-	(16,060)	-
Provision for equity-settled share-based compensation	-	-	-	-	-	349	349
Net profit for the year	-	-	-	-	-	197,794	197,794
Balance as at 31 December 2015 and 1 January 2016 before appropriations	225,000	50,000	216,102	20,471	-	1,106,522	1,618,125
Available-for-sale investment revaluation	-	-	-	648	-	-	648
Tax impact of revaluation of available-for-sale investments	-	-	-	(78)	-	-	(78)
Transfer to legal reserve	-	-	8,898	-	-	(8,898)	-
Transfer to reserve for share-based compensation	-	-	-	-	752	(752)	-
Provision for equity-settled share-based compensation	-	-	-	-	206	-	206
Net profit for the year	-	-	-	-	-	204,238	204,238
Balance as at 31 December 2016 before appropriations	225,000	50,000	225,000	21,041	958	1,301,140	1,823,139

The notes on pages 13 to 41 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

	Note	2016	2015
Cash flows from operating activities			
Interest income received		529,408	523,456
Interest expense paid		(162,271)	(179,727)
Dividends received		1,511	1,592
Net fee and commission income received		41,239	48,076
Net trading income received		39,195	64,707
Recoveries of loans and interest previously written off		2,766	2,500
Other operating income received		9,463	9,126
Other operating expenses paid		(193,917)	(164,275)
Income tax paid		(26,862)	(21,744)
Net cash flows from operating activities before changes in operating assets and operating liabilities		240,532	283,711
Changes in operating assets and operating liabilities			
Net increase in AMCM monetary bills with original maturity of more than 3 months and balance with AMCM		(301,424)	(683,125)
Net increase in placements with and loans and advances to banks with original maturity of more than 3 months		(444,506)	(156,931)
Net increase in loans and advances to customers		(654,831)	(610,963)
Net (increase)/decrease in other operating assets		(42,238)	3,845
Net increase/(decrease) in balances and deposits from banks		154,626	(73,303)
Net increase in deposits from customers		586,169	1,121,680
Net increase/(decrease) in other operating liabilities		48,188	(5,158)
Net cash flows used in operating assets and operating liabilities		(654,016)	(403,955)
Cash flows from investing activities			
Purchase of intangible assets		(2,228)	(2,291)
Purchase of premises and other fixed assets		(8,254)	(3,858)
Proceeds from disposal of premises and other fixed assets		5	20
Proceeds from redemption of available-for-sale investments		39,939	38,320
Purchase of held-to-maturity investments		(103,000)	(1,111,899)
Proceeds from redemption of held-to-maturity investments		673,670	2,144,633
Net cash flows from investing activities		600,132	1,064,925
Net cash flows from financing activities		-	-
Net increase in cash and cash equivalents		186,648	944,681
Cash and cash equivalents at the beginning of the year		2,520,000	1,575,319
Cash and cash equivalents at the end of the year		2,706,648	2,520,000
Cash and cash equivalents comprise:			
Cash and balances with banks		752,723	414,327
AMCM monetary bills and placements with and loans and advances to banks with original maturity up to 3 months		1,953,925	2,105,673
Total cash and cash equivalents as at 31 December	30	2,706,648	2,520,000

The notes on pages 13 to 41 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, commercial and institutional banking businesses. The Bank is a limited liability company by shares. The address of its registered office is 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, bancassurance 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, and bank guarantees for corporate, institutional and high net worth customers.

The Bank also provides wealth management products, bancassurance 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 Main Board of The Stock Exchange of Hong Kong.

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 20 February 2017.

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.

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'), held-to-maturity investments ('HTM'), and available-for-sale investments ('AFS').

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 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.

2.7.3 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.

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.

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 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.

2.7.5 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.

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.

2.7.6 Other investments

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

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

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

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

2 Summary of significant accounting policies (continued)

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.

2.11 Repossessed assets

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

NOTES TO THE FINANCIAL STATEMENTS

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

2 Summary of significant accounting policies (continued)

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 life 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.

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 Macau tax authority.

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.

2.19 Dividend

Dividend distribution to the Bank's shareholders is recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

NOTES TO THE FINANCIAL STATEMENTS

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

2 Summary of significant accounting policies (continued)

2.20 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.

2.21 Balance with AMCM

In accordance with AMCM Notice N^o 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

3 Critical accounting estimates and judgments (continued)

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.

4 Net interest income

Interest income

	2016	2015
Interest received and receivable on:		
Current account with AMCM	25	24
AMCM monetary bills	15,705	5,780
Placements with and loans and advances to banks	15,798	22,780
Investment securities	47,046	70,601
Loans and advances to customers	443,305	420,909
Other interest income	2,141	1,764
Total interest income	524,020	521,858

Interest expense

Interest paid and payable on:

Balances and deposits from banks	1,357	1,078
Deposits from customers	147,795	170,498
Other interest expense	11,394	11,324
Total interest expense	160,546	182,900

Net interest income

363,474	338,958
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5 Net fee and commission income

Fee and commission income

	2016	2015
Fee and commission income from:		
Bank guarantees granted	2,788	3,006
Trade finance	1,402	2,143
Securities trading and custody	5,595	9,277
Commitment fees	2,332	3,816
Credit card operations	67,315	71,364
Cheques and payment orders issued	1,542	1,779
Insurance sales	8,024	7,563
Other fee and commission income	7,587	6,448
Total fee and commission income	96,585	105,396

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

	2016	2015
Fee and commission expense on:		
Custodian services	51	33
Auto finance	2,738	2,390
Correspondent banks	428	584
Securities trading	2,669	4,063
Credit card related expenses	49,549	49,881
Total fee and commission expense	55,435	56,951
Net fee and commission income	41,150	48,445

6 Dividend income

	2016	2015
Listed companies	102	150
Unlisted companies	1,409	1,442
Total dividend income	1,511	1,592

7 Net trading income

	2016	2015
Net trading income		
- Foreign exchange	12,379	12,791
- Fair value change on investments designated at FVTPL	4,769	6,887
Net trading income	17,148	19,678

8 Other operating income

	2016	2015
Services rendered to third parties	892	832
Property rental	1,764	1,764
Other operating income	6,811	6,550
Total other operating income	9,467	9,146

NOTES TO THE FINANCIAL STATEMENTS

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

9 Operating expenses

	2016	2015
Staff costs:		
Directors' remuneration	12,061	11,036
Wages, salaries and bonus	104,638	96,506
Pension costs	7,543	6,301
Others	8,970	8,345
Property costs:		
Rental of premises	7,156	6,504
Other property costs	1,361	1,597
Amortization and depreciation:		
Amortization of intangible assets	3,038	3,634
Depreciation for premises and other fixed assets	10,389	12,710
Amortization for leasehold land and land use rights	1	1
Other operating expenses:		
Advertising and promotion expenses	4,542	5,244
Auditor's remuneration	863	911
Computer expenses	10,948	11,350
Other operating expenses	22,179	22,380
Total operating expenses	193,689	186,519

10 Impairment losses on loans and advances to customers

	2016	2015
Specific provisions		
Charged to the income statement	5,670	4,510
Recoveries	(2,420)	(1,391)
Net charge to income statement	3,250	3,119
General provisions		
Net charge to income statement	6,263	6,119
Total impairment losses on loans and advances to customers	9,513	9,238

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 2015 and 2016, a special tax incentive is provided to the effect that tax free income threshold is increased from MOP 32,000 to MOP 600,000 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:

	2016	2015
Current income tax expense	27,199	25,070
Deferred income tax expense	572	1,705
Total tax expense	27,771	26,775

	2016	2015
Profit before tax	232,009	224,569
Tax calculated at 12% (2015: 12%)	27,841	26,948
Under/(over) provision in previous years	50	(36)
Effect of the progressive tax rate below 12%	(17)	(17)
Special complementary tax incentive	(55)	(55)
Income not subject to tax	(158)	(158)
Expenses not deductible for tax purposes	110	93
Total tax expense	27,771	26,775

12 Dividend

At a meeting held on 20 February 2017, the directors proposed a dividend of MOP 50,000,000 for the year ended 31 December 2016. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2017 upon the approval of the shareholders in the Annual General Meeting (2015: Nil).

13 Cash and balances with banks

As at 31 December	2016	2015
Cash	214,993	219,192
Balances with banks	582,908	177,786
	797,901	396,978

NOTES TO THE FINANCIAL STATEMENTS

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

14 Loans and advances to customers

As at 31 December	2016	2015
Loans and advances to customers	12,920,435	12,268,108
Specific provisions	(16,592)	(17,117)
General provisions	(131,950)	(125,687)
Net loans and advances to customers	12,771,893	12,125,304

As at 31 December	2016	2015
Maturing within 12 months	1,704,286	1,421,041
Maturing beyond 12 months	11,067,607	10,704,263
Net loans and advances to customers	12,771,893	12,125,304

15 Movement of provisions for loans and advances to customers

	Specific provisions	General provisions	Total provisions
Balance as at 1 January 2015	17,387	119,568	136,955
Amounts written off	(3,389)	-	(3,389)
Net charge for the year	3,119	6,119	9,238
Balance as at 31 December 2015	17,117	125,687	142,804
Balance as at 1 January 2016	17,117	125,687	142,804
Amounts written off	(3,775)	-	(3,775)
Net charge for the year	3,250	6,263	9,513
Balance as at 31 December 2016	16,592	131,950	148,542

16 Derivative financial instruments

Foreign exchange derivatives as at 31 December	2016	2015
Currency forwards purchase (notional value)	112,850	755,469
Currency forwards sale (notional value)	(113,194)	(757,717)
Interest rate swaps (IRS) as at 31 December - notional amount	135,882	136,956
Currency options purchased (notional)	4,640	31,161
Currency options written (notional)	(4,640)	(31,161)

NOTES TO THE FINANCIAL STATEMENTS

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

17 Investment securities – Available-for-sale

As at 31 December	2016	2015
Debt securities (listed)	95,837	137,201
Debt securities (unlisted)	40,055	41,530
	<u>135,892</u>	<u>178,731</u>
Equity securities (unlisted)	26,214	26,042
Total AFS investments	<u>162,106</u>	<u>204,773</u>

18 Investment securities – Held-to-maturity

As at 31 December	2016	2015
Debt securities (listed)	349,590	403,107
Debt securities (unlisted)	610,450	1,161,814
	<u>960,040</u>	<u>1,564,921</u>
Market value	<u>950,783</u>	<u>1,549,368</u>
Maturing within 12 months	596,547	703,495
Maturing beyond 12 months	363,493	861,426
	<u>960,040</u>	<u>1,564,921</u>

19 Other investments

As at 31 December	2016	2015
Unlisted equity securities, at cost	<u>37,935</u>	<u>37,919</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 2015	6,019
Additions	2,854
Disposals	(532)
Amortization charged	(3,634)
Closing net book amount as at 31 December 2015	<u>4,707</u>
 As at 31 December 2015	
Cost	46,173
Accumulated amortization	(41,466)
Net book amount	<u><u>4,707</u></u>
 Opening net book amount as at 1 January 2016	
	4,707
Additions	2,690
Disposals	(152)
Amortization charged	(3,038)
Closing net book amount as at 31 December 2016	<u>4,207</u>
 As at 31 December 2016	
Cost	48,680
Accumulated amortization	(44,473)
Net book amount	<u><u>4,207</u></u>

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 2015				
Cost	107,080	59,844	71,405	238,329
Accumulative depreciation	(34,057)	(51,764)	(57,444)	(143,265)
Net book amount	73,023	8,080	13,961	95,064
Opening net book amount as at 1 January 2015	73,023	8,080	13,961	95,064
Additions	-	2,428	3,506	5,934
Write-offs/disposals	-	-	(14)	(14)
Depreciation charged	(2,114)	(5,232)	(5,364)	(12,710)
Closing net book amount as at 31 December 2015	70,909	5,276	12,089	88,274
As at 31 December 2015				
Cost	107,080	62,081	67,107	236,268
Accumulated depreciation	(36,171)	(56,805)	(55,018)	(147,994)
Net book amount	70,909	5,276	12,089	88,274

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 2016	70,909	5,276	12,089	88,274
Additions	-	4,691	3,615	8,306
Write-offs/disposals	-	(427)	(293)	(720)
Depreciation charged	(2,114)	(3,263)	(5,012)	(10,389)
Closing net book amount as at 31 December 2016	68,795	6,277	10,399	85,471

As at 31 December 2016

Cost	107,058	57,707	63,567	228,332
Accumulated depreciation	(38,263)	(51,430)	(53,168)	(142,861)
Net book amount	68,795	6,277	10,399	85,471

The net book amount of premises comprises:

	2016	2015
Leaseholds in Macau	65,841	67,876
Freeholds in Macau	2,954	3,033
Net book amount	68,795	70,909

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	2016	2015
Deferred income tax liabilities to be settled after more than 12 months	<u>(3,044)</u>	<u>(2,394)</u>

The net movement on the deferred income tax liability account was as follows:

As at 1 January	(2,394)	(593)
Recognized in the income statement	(572)	(1,705)
Recognized in equity	(78)	(96)
As at 31 December	<u>(3,044)</u>	<u>(2,394)</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/(liabilities)

	Gains on investments carried at FVTPL	Available-for- sale investment revaluation reserve	Total
As at 1 January 2015	157	(750)	(593)
Charged to the income statement	(826)	(879)	(1,705)
Charged to equity	-	(96)	(96)
As at 31 December 2015	(669)	(1,725)	(2,394)
As at 1 January 2016	(669)	(1,725)	(2,394)
Charged to the income statement	(572)	-	(572)
Charged to equity	-	(78)	(78)
As at 31 December 2016	(1,241)	(1,803)	(3,044)

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

	2016	2015
Revaluation of available-for-sale investments	(78)	(96)
	(78)	(96)

NOTES TO THE FINANCIAL STATEMENTS

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

23 Other assets

As at 31 December	2016	2015
Reposessed assets	7,838	-
Accounts receivable and prepayments	16,065	9,394
Others	46,752	12,351
	<u>70,655</u>	<u>21,745</u>

24 Deposits from customers

As at 31 December	2016	2015
Current deposit accounts	2,383,135	2,465,271
Savings deposit accounts	4,154,300	3,739,935
Time deposit accounts	10,448,746	10,196,387
Total deposits from customers	<u>16,986,181</u>	<u>16,401,593</u>

As at 31 December	2016	2015
Maturing within 12 months	16,986,143	16,400,566
Maturing beyond 12 months	38	1,027
	<u>16,986,181</u>	<u>16,401,593</u>

25 Other liabilities

As at 31 December	2016	2015
Accrued expenses and other payables	18,246	25,074
Deferred income	3,133	3,321
Others	78,088	29,821
	<u>99,467</u>	<u>58,216</u>

NOTES TO THE FINANCIAL STATEMENTS

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

26 Contingent liabilities and commitments

As at 31 December 2016 and 2015, the Bank did not have any capital commitments.

Credit commitments as at 31 December	2016	2015
Bank guarantees	338,572	324,911
Trade related contingencies	18,687	41,649
Other commitments	1,358,435	1,543,151
Total credit commitments	1,715,694	1,909,711

Operating lease commitments as at 31 December	2016	2015
Less than 12 months	5,619	5,554
Between 1 to 5 years	9,203	2,430
Over 5 years	4,430	-
Total operating lease commitments	19,252	7,984

27 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 and DSB BCM (2) Limited, each is directly holding 11% equity interest in the Bank, and both are wholly owned subsidiaries of DSB. The ultimate holding company of the Bank is Dah Sing Financial Holdings Limited ('DSFH'), a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong. The Bank transacts with Macau Insurance Company Limited (Macau) ('MIC'), Macau Life Insurance Company Limited (Macau) ('MLIC') and Dah Sing Life Assurance Company Limited ('DSLAL'), which are fellow subsidiaries under DSFH.

On 2 June 2016, DSFH announced that it together with MIC had entered into a share sale agreement (the 'Sale') with an external party for the conditional sale of those entities within the DSFH Group which are engaged in the sale and underwriting of life insurance products and which comprise DSLAL, Dah Sing Insurance Services Limited ('DSIS') and MLIC. On the same date, DSB proposed to enter into the Hong Kong Distribution Agreement with DSLAL and DSIS, and the Bank proposed to enter into the Macau Distribution Agreement with MLIC upon completion of the Sale for the distribution of the life-insurance products of DSLAL and MLIC in Hong Kong and Macau respectively.

The completion of the Sale is conditional on a number of conditions which include obtaining approval from the relevant regulatory authorities. As at the date of approval of these financial statements, the required approval from the relevant regulatory authorities in Hong Kong and Macau is not yet granted. On this basis, the Hong Kong Distribution Agreement and the Macau Distribution Agreement are yet to be concluded.

NOTES TO THE FINANCIAL STATEMENTS

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

27 Related party transactions (continued)

The following transactions were carried out with related parties:

Immediate holding company

Balances as at 31 December	2016	2015
Balances and placements with and loans and advances to banks	2,021,773	1,463,568
Investment securities – held-to-maturity	-	-
Receivables or prepaid expenses:		
Other receivables or prepaid expenses	1,201	395
Liabilities:		
Balances and deposits from banks	353,335	198,325
Payables or deferred income:		
Interest on interest rate swaps	1,447	1,556
Management fee	3,239	9,818
Other payables or deferred income	713	713
Off balance sheet items		
Interest rate swaps (notional amount)	135,882	136,956
Currency options (notional amount)	4,640	31,161
	<u> </u>	<u> </u>
For the year ended 31 December	2016	2015
Income:		
Interest on placements with and loans and advances to banks	15,751	22,732
Interest on investment securities held-to-maturity	-	749
Other operating income/management fee	672	122
Expenses:		
Interest on balances and deposits from banks	1,342	1,087
Interest on interest rate swaps (net)	6,221	6,554
Other operating expense/management fee	1,036	785
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

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

27 Related party transactions (continued)

Fellow subsidiaries

Balances as at 31 December	2016	2015
Receivables or prepaid expenses:		
Other receivables or prepaid expenses	1,010	1,013
Liabilities:		
Deposits from customers	<u>452,768</u>	<u>611,087</u>
For the year ended 31 December	2016	2015
Income:		
Fee and commission and operating income	13,088	11,632
Expenses:		
Interest on deposits from customers	4,971	7,656
Fee and commission and operating expenses	<u>2,884</u>	<u>2,879</u>

28 Share capital

	2016	2015
Authorized 900,000 shares at MOP 250 each	<u>225,000</u>	<u>225,000</u>
Issued and fully paid:	2016	2015
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>

NOTES TO THE FINANCIAL STATEMENTS

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

29 Legal reserves

Movements in legal reserves are included in the statement of changes in equity on page 12 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.

30 Notes to cash flow statement

Analysis of balances of cash and cash equivalents:

	2016	2015
Cash (Note 13)	214,993	219,192
Balances with banks (Note 13)	582,908	177,786
Balance with AMCM	314,958	372,201
Minimum statutory cash requirement	(360,136)	(354,852)
Total cash and balances with banks	<u>752,723</u>	<u>414,327</u>
With original maturity up to 3 months:		
AMCM monetary bills	1,028,925	908,304
Placements with and loans and advances to banks	925,000	1,197,369
Total AMCM monetary bills and placements with and loans and advances to banks	<u>1,953,925</u>	<u>2,105,673</u>
Total cash and cash equivalents as at 31 December	<u>2,706,648</u>	<u>2,520,000</u>