

2009 AMCM Spring Cocktail Address
By Anselmo Teng, Chairman of Monetary Authority of Macao
(13 March 2009)

*The Honourable Secretary for Economy and Finance, Mr. Francis Tam,
The Honourable Deputy Director of the Economic Affairs Department of the Liaison
Office of the Central People's Government in the MSAR, Mr. Li Chunman,
The Honourable Chairman of the Macau Association of Banks, Mr. Ye Yixin,
The Honourable President of the Macau Insurers' Association, Mr. Chris Ma,
The Honourable President of the Macau Insurance Agents and Brokers Association, Mr.
Pierre Choi,,
The Honourable President of the Federation of Macau Professional Insurance
Intermediaries, Mr. Vat Siu Hong,
The Honourable President of the Macau Financial Markets Association, Mr. Roger
Chan,
The Honourable President of the Association of Macau Financial Employees, Mr.
Pierre Ng,
Friends of media,
Distinguished guests, dear colleagues,*

*Good afternoon, I wish to express our warmest welcome to you on behalf of the
Monetary Authority of Macao. I wish to propose a special vote of thanks to Mr.
Francis Tam, Mr. Zhou Zhikui, Mr. Li Chunman, distinguished guests and all our
friends for their consistent support, guidance and help rendered to the Monetary
Authority of Macao.*

*2008 was a very special year. The weather was abnormal. We witnessed the
destructions inflicted by mother nature, in addition to global economic and financial
woes. Subprime crisis continued its fermentation as financial tsunami devastated the
globe. Tremendous amount of wealth evaporated in the tumultuous financial markets.
There was a sharp downturn of economic growth which led to deep recession. It gave
rise to a series of concerted global efforts to salvage the overall economy. We feel very
lucky in Macao which has not been much affected. The Macao economy has still
realized double digit growth, our financial sector has presented encouraging results.
Thanks to the support of the Central Government and Municipal/Provincial
Governments and the concerted efforts of the MSAR Government and our community.*

*As at the end of 2008, there were 75 financial institutions operating in Macao. Out of
which, 28 were banks, 24 were insurance companies in addition to 23 institutions of
other natures. As far as banks are concerned, total assets as at end 2008 stood at
MOP359.42 billion, up 9.7% on a year-on-year basis; loans amounted to MOP150.62
billion, up 38.7%; deposits amounted to MOP275.18 billion, up 2.6%; capital
adequacy ratio was 14.86% which was 0.23% stronger than previous year. Non-*

performing loans accounted for 0.95% of the portfolio only. Aggregate after tax profit was MOP3.22 billion, down 16.6% compared to previous year.

On the insurance front, gross premium registered a year-on-year growth of 7.1% to MOP3.46 billion. Of which, life related premium amounted to MOP2.56 billion, an increase of 13.5%. Life insurance still dominated the market with the lion's share of 74% while non-life premium shrank by 7.6% with a gross premium of close to MOP900 million. Trust assets under management of private pension funds amounted to MOP4 billion which exhibited an increase of 15% compared to the 2007 figure of MOP3.5 billion.

The results have been achieved by strenuous efforts displayed by practitioners in the face of the ferocious financial tsunami. It goes without saying that supports from the MSAR Government, the Liaison Office of the Central Government, our citizens and other sectors of our community are indispensable. On behalf of AMCM, I would like to take this opportunity to propose a vote of thanks to our assiduous financial practitioners for their relentless efforts and our community for their support and assistance. They are part of the sustainable development of our financial industry. At the same time, I also take this opportunity to express my appreciation of my AMCM colleagues for their hard work.

In tandem with the sustainable development of the financial industry, financial regulatory work is being enhanced. On the banking front, AMCM in 2008 reinforced onsite inspection and offsite surveillance. Simultaneously, regulatory policy and requirements were supplemented and perfected. "Guideline on Risk Management of Electronic Banking", "Guideline on Management of Country Risk", "Guideline on Management of Interest Rate Risk" and "Guideline on Investment Management" were implemented. Test run for regulating operational risk capital requirement was carried out. Consultations relating to revised "AML/CFT Guidelines for Financial Institutions", "Guideline on Handling of Customer Compliant", "Guideline on Business Continuity Management", "Guideline on Outsourcing" were finalized. Meanwhile there are other guidelines which are in the pipeline for consultation, such as information disclosure, asset classification and provisioning, liquidity management, promotion and sale of financial products. I believe that the implementation of the aforementioned guidelines will further strengthen the risk management aspect of institutions under supervision which will no doubt facilitate the sustainability and stability of our banking sector. It also enables our regulatory requirements to be aligned with international standards.

On the other hand, AMCM continued tracking the market closely. We witnessed incidents such as the bank run in September, Lehman mini bonds incident in October and the outbreak of the financial tsunami which we are still facing. We adopted a series of countervailing measures which quickly quelled bank run. The banking system kept adequate capital with ample liquidity. As for the Lehman saga, more than 10% of

the investors have come to terms with the financial institutions. Negotiations are being carried out between the investors and institutions involved. AMCM is monitoring the progress closely with a view to resolving the matter at an earlier date.

On the insurance front, AMCM has been following up the impact of financial tsunami on insurance institutions. At the same time, it enhanced supervision of insurance companies operating locally, particularly the adequacy and financial viability of technical reserves and solvency margin maintained by insurance companies. The revised version of AML/CFT guidelines for the insurance industry was postulated and implemented. The related supervisory plan and onsite/offsite inspection procedures are being carried out. In addition, the revised versions of “Insurance Agents and Brokers Ordinance” and “Macau Insurance Companies Ordinance” have been finalized after consultation.

In managing Exchange Reserves and the MSAR Reserve Fund, we had a tough time in 2008 due to the difficult and turbulent international financial markets. As usual, AMCM adopted a steadfast and prudent principle to formulate an appropriate investment strategy to cope with fluctuations in the international financial markets. We managed to achieve a steady return. As at the end of 2008, Exchange Reserves reached MOP127.16 billion which was an increase of MOP20.86 billion or 19.6% compared to 2007. In February 2009, the figure broke the MOP130 billion mark. The relatively ample exchange reserves effectively safeguard the convertibility of the Pataca and help to uphold our currency exchange policy. At the same time, the MSAR Reserve Fund stood at MOP12.3 billion which increased by MOP100 million or 0.82% compared to 2007.

Furthermore, to ensure sufficient supply of our local currency, AMCM authorized our two notes issuing banks to issue more banknotes. Supply of coins also increased. Bank of China Macao Branch, in coordination with the Mainland and Hong Kong, issued new Pataca notes in commemoration of the Beijing Olympics. The event not only went down in Olympic history, it in reality promoted the recognition of Pataca and the image of Macao.

In promoting regional economic communication and cooperation, AMCM proactively complement the policy of the MSAR in forging Macao to become a platform for the cooperation between Mainland and Portuguese speaking countries. After visit to Portugal, Angola and Mozambique in 2007, it organized in 2008 representatives from our financial sector to visit Brazil and Cape Verde with a view to establishing financial cooperation mechanism and promoting trade development. It hosted insurance supervision convention of Portuguese speaking countries. On the other hand, AMCM had an active participation in the discussion of financial aspect under the CEPA framework and Pan Pearl River Delta financial cooperation. In the meantime, a mechanism was established whereby regular meetings relating to banking and insurance would be held between counterparts of Guangdong, Shenzhen, Hong Kong

and Macao. Topics for discussion embraced financial communication, cooperation between small and medium sized financial institutions, circulation of RMB in Macao, recognition of the Pataca on the Mainland, cross border settlement, insurance cooperation and combating cross border illicit financial activities. The results were fruitful. Moreover, AMCM participated in a convention hosted by the Macau Insurers' Association to facilitate communication and cooperation of insurance industry of the Mainland, Chinese Taiwan, Hong Kong and Macao which encouraged regional economic cooperation and integration.

2009 will be a year full of challenges. Battered by the financial tsunami, a global economic recession is inevitable. Macao economy is under test. There will certainly be some degree of adjustment. However, as we can see, despite the simplicity of its structure, the Macao economic foundation has much improved. We have strengthened our competition in an industry in which we already have a competitive edge. Our financial sector remains healthy which is enhanced by the guarantee of deposits announced by the MSAR Government in last October in addition to provision of liquidity and capital support measures. Simultaneously, the international community is taking strenuous action to resuscitate the economy. The Central Government and our neighbouring regions are adopting colossal stimulus plans to reflate the economy and promote growth. The MSAR Government is implementing a series of special measures with a view to promoting economic growth and improving the well being of the citizens. I believe, the operating environment of our financial industry will improve gradually.

In the process, our financial sector will be on full alert. A close attention should be paid to changes in market development and operational risks. Internal control should be strengthened, risk management to be enhanced and efforts should be applied to prevention of asset quality deterioration. In the face of prudent operation, the concept of "customer first" should be underscored. There should be continued endeavour to improve customer service, enhance quality of service, seek new business opportunity, proactively respond and support the macro-economic policy of the MSAR Government and its 2009 policy measures. Under the guidance of the MSAR Government, AMCM will, in coordination with market participants, perfect supervisory procedures and enhance supervisory effectiveness in accordance with the supervisory principle of "risk based approach". AMCM will also take appropriate follow-up action to manage the Lehman incident. It will endeavour to promote regional, particularly Pearl River Delta, financial cooperation. In the course of fulfilling its duties as a regulator, AMCM will continue to act as a facilitator. Let us put our efforts together to ensure the development of the Macao financial sector in a steady and healthy manner conducive to the long term development and prosperity of our economy and community.

Finally, I would like to take this opportunity to wish all of you health, luck and a happy family.

Thank you.