

Bank of China Limited,  
Macau Branch

**Disclosure of Financial Information**

31 December 2012

## Summary of the external auditors' report

To the General Manager of Bank of China Limited, Macau Branch  
(Branch of a commercial bank with limited liability incorporated in the People's Republic of China)

We have audited the 2012 financial statements of Bank of China Limited, Macau Branch in accordance with the Auditing Standards and the Technical Auditing Standards of the Macau Special Administrative Region and on 20 March 2013 issued an auditor's report with an unqualified opinion on the financial statements.

The audited financial statements comprise the balance sheet as at 31 December 2012, the income statement, a statement of recognised income and expenses, and a cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The accompanying summarised financial statements prepared by the management is a summary of the audited financial statements and the books and records of the Branch. We believe page 3 to page 6 of the summarised financial statement is consistent with the audited financial statements and the books and records in all significant aspects.

In order to understand the state of affairs and operating results of Bank of China Limited, Macau Branch as well as the audit scope, you are advised to read the summarised financial statements together with the audited financial statements and the independent auditor's report.

Lei Iun Mei , Certified Public Accountants

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Bank of China Building  
Avenida Doutor Mario Soares  
Macau,

20 March 2013

## Summary of 2012 management report of Bank of China Macau Branch

In 2012, the Bank of China Macau Branch (“the Branch”) consistently implemented the development strategy of its head office. By developing diversified service platforms, the Branch achieved rapid and sustainable growth in various fields. Deposits, loans, total assets and profits all recorded double-digit growth, while the asset quality was improved.

In line with its corporate mission “Rooted in Macau, Steadfast in Serving”, the Branch strongly adhered to its principle of placing equal emphasis on business profits and social benefits in 2012. The Branch focused on optimising the business structure and strengths, the customer structure and sources, the operating system, and the products and services. Consequently, fee-based business has achieved significant progress in terms of its revenue sources and its ability to generate revenue. During the year, the Branch introduced a number of innovative products including the self-issued UnionPay chip card project with the assistance from head office, the Chinese Zodiac New Year series financial IC Card, the BOC Auspicious Gold Series and the supplementary housing estate banking service programme. These innovations have provided more diversified business types and have enhanced the product portfolios of the Branch. Furthermore, the Branch issued RMB certificates of deposit in Hong Kong for the first time, further broadening its line of RMB products and services. The Branch has also been proactive in its risk management through the implementation of the New Basel Capital Accord, improving its quantitative risk management abilities and skills.

In celebration of the Bank of China’s centenary, the Branch issued the Bank of China 100th Anniversary Commemorative Notes. The launch of the notes was proudly supported by the Macau SAR Government and the general public. The Branch demonstrated its commitment to social responsibility by donating the profits from the Commemorative Notes to various charitable organisations in Macau. In accordance with its corporate culture and the line “Patriotic to the country, love for the city, affection for the bank and passion for our careers”, the Branch held a series of charity events with ‘thanksgiving’ as the theme. These included the Joyous Run – BOC Climbing Stairs for Charity 2012, the Joyous BOC Charity Walk 2012 and the Bank of China Macau Charity Cup – Golf Championship 2012. The Branch donated both cash and gifts to various charities during these events, thereby playing an active role in building a harmonious society and fulfilling its commitment to social responsibility. Within the Branch, both the Recreation Club of the Bank of China Macau and the Bank of China Macau Youth Association encouraged staff members to participate in more community activities. For instance, staff voluntarily donated to the Shenzhou 9 spacecraft astronauts to support Chinese national aerospace science development, and they donated their time to help charity organisations and the underprivileged in society. All our commitments to social responsibility gained widespread recognition from the general public.

In 2013, the Branch will remain committed to strengthening the idea of capital conservation and raising the quality of its capital base. The Branch is dedicated to being more customer-orientated and fine tuning of its electronic banking service, aiming to provide seamless, high-quality, convenient and relevant services. While the Branch will continue to place equal emphasis on business profits and social benefits, it will also remain actively involved in charity work, and looks forward to building a better future together with members of the general public and its customers.

Bank of China Macau Branch  
General Manager  
Ye Yixin  
20 March 2013

**Balance Sheet at 31 December 2012**  
 (Expressed in thousands of Macau Patacas)

	2012		
	<i>Amounts</i> <i>MOP'000</i>	<i>Reserves, depreciation and impairments</i> <i>MOP'000</i>	<i>Net Amount</i> <i>MOP'000</i>
<b>Assets</b>			
Cash	1,952,189	-	1,952,189
Deposits at AMCM	14,559,805	-	14,559,805
Certificates of indebtedness of Macau SAR	4,247,070	-	4,247,070
Current deposits at other local credit institutions	65,660	-	65,660
Current deposits at other overseas credit institutions	14,222,532	-	14,222,532
Other current assets	2	-	2
Loans and advances	166,439,273	193,884	166,245,389
Placement to local credit institutions	11,191,420	-	11,191,420
Call and fixed deposits at overseas credit institutions	127,245,761	-	127,245,761
Shares, bonds and equities	4,011,068	-	4,011,068
Debtors	567,251	-	567,251
Financial investments	73,323	-	73,323
Properties	919,961	444,816	475,145
Equipments	574,556	424,902	149,654
Deferred expenses	252,713	234,157	18,556
Construction in progress	4,241	-	4,241
Other fixed assets	222	222	-
Internal and adjustment accounts	1,444,569	-	1,444,569
<b>TOTAL</b>	<b>347,771,616</b>	<b>1,297,981</b>	<b>346,473,635</b>

## Balance Sheet at 31 December 2012 (continued)

(Expressed in thousands of Macau Patacas)

	2012	
	<i>Subtotal</i>	<i>Total</i>
<b>Liabilities</b>	<i>MOP'000</i>	<i>MOP'000</i>
Bank notes in circulation of Macau SAR		4,476,764
Current deposits	77,815,720	
Call deposits	6,433	
Fixed deposits	111,107,408	188,929,561
Public sector deposits		21,158,728
Amounts due to local credit institutions	3,308,862	
Amounts due to overseas credit institutions	117,213,514	
Cheques and bills payable	1,021,794	
Creditors	1,942,979	
Other liabilities	565	123,487,714
Internal and adjustment accounts		3,062,914
Provision		1,899,391
Operating funds		1,032,600
Revaluation reserves		16,987
Current profit		2,408,976
<b>TOTAL</b>		<b>346,473,635</b>

**Profit and loss account**  
**for the year ended 31 December 2012**  
*(Expressed in thousands of Macau Patacas)*

Income Statement			
Debit	2012 Amount MOP'000	Credit	2012 Amount MOP'000
Operating costs	4,265,794	Operating income	7,190,899
Personnel expenses		Income from banking services	553,534
Staff costs	808,873	Other operating income	622,073
Staff benefits	104,589	Income from securities and financial investment	205,844
Supplies by third party	51,224	Other banking income	33,443
Services provided by third party	233,066	Non operating income	44,700
Other banking expenses	83,781		
Tax expenses	9,512		
Non operating expenses	830		
Depreciation expenses	107,579		
Provision	340,879		
Operating profit	2,644,366		
<b>TOTAL</b>	<b>8,650,493</b>	<b>TOTAL</b>	<b>8,650,493</b>

**Profit and loss account**  
**for the year ended 31 December 2012 (continued)**  
*(Expressed in thousands of Macau Patacas)*

Profit and loss account			
Debit	2012 Amount MOP'000	Credit	2012 Amount MOP'000
Loss from previous years	16,088	Operating profit	2,644,366
Tax on profit	323,100	Income from previous years	29,597
Profit	2,408,976	Extraordinary income	58,113
		Provision written off in current year	16,088
<b>TOTAL</b>	<b>2,748,164</b>	<b>TOTAL</b>	<b>2,748,164</b>

Approved and authorised for issue by the management of the Branch on 20 March 2013

Ye Yixin

General Manager

**Cash flow statement**  
**for the year ended 31 December 2012**  
*(Expressed in thousands of Macau Patacas)*

	2012 MOP'000
<b>Operating activities</b>	
Profit before taxation	2,732,076
Adjustments for non-cash items:	
Depreciation	107,579
Amortisation of discount and premium of debt securities	(60,465)
Interest income from debt investments	(239,415)
Gain on disposal of fixed assets	(58,113)
Dividend income	(1,030)
Share of profits of associate	(9,126)
Gain on disposal of unlisted equity investments	(17,573)
Provisions for loans and other losses	319,945
	<u>41,802</u>
	<u>2,773,878</u>
Net changes in operating assets:	
Amounts due from financial institutions	(36,884,660)
AMCM Monetary Bills	(8,547,464)
Loans and advances to customers	(35,943,347)
Certificate of Indebtedness of Macau SAR	(834,825)
Other assets	(282,967)
	<u>(82,493,263)</u>
Net changes in operating liabilities:	
Amounts due from financial institutions	(5,094,494)
Customers deposits	52,403,888
Bank notes in Circulation of Macau SAR	873,354
Other liabilities	2,683,577
Certificates of deposit issued	6,949,479
	<u>57,815,804</u>
Net cash outflow from operating activities	(21,903,581)
Macau Complementary Tax paid	(247,116)
	<u>(22,150,697)</u>

**Cash flow statement**  
**for the year ended 31 December 2012 (continued)**  
*(Expressed in thousands of Macau Patacas)*

	2012 MOP'000
<b>Net cash outflow from operating activities</b>	(22,150,697)
<b>Investing activities</b>	
Dividends received	1,030
Proceeds from sale of fixed assets	60,208
Interest received from debt investments	127,453
Purchase of property and equipment	(113,599)
Purchase of debt investments	(1,404,828)
Proceeds from sale of unlisted equity investments	33,218
Proceeds from sale of debt investments	2,616,928
<b>Net cash inflow from investment activities</b>	1,320,410
<b>Financial activities</b>	
Funds remitted to Head Office	(1,850,135)
<b>Net cash outflow from financial activities</b>	(1,850,135)
<b>Increase in cash and cash equivalents</b>	(22,680,422)
<b>Cash and cash equivalents as at 1 January</b>	115,635,632
<b>Cash and cash equivalents as at 31 December</b>	92,955,210
<b>Cash flows from operating activities include:</b>	
Interest received	6,298,655
Interest paid	3,684,571

**The following table is the analysis of the branch's cash and cash equivalents:**

Cash in hand	1,952,189
Repayable on demand	
- Balance with AMCM	14,559,805
- Balance with financial institutions	14,586,038
Balance with financial institutions with agreed original maturities	126,852,760
AMCM Monetary Bills	11,150,220
	167,148,823
Cash and cash equivalents as at 31 December	169,101,012
Less: Balance with financial institutions with agreed original maturities over 3 months	(64,995,582)
Less: AMCM Monetary Bills with agreed original maturities over 3 months	(11,150,220)
Cash and cash equivalents which are readily convertible as at 31 December	92,955,210

## Off-balance-sheet exposures

(Expressed in thousands of Macau Patacas)

As at 31 December 2012, the Branch had the following contingent liabilities and outstanding commitments:

(a) **Endorsements and performance guarantee on behalf of customers**

Endorsements and performance guarantee on behalf of customers and relevant obligations assumed by customers were not included in the balance sheet:

	2012 MOP'000
Direct credit substitutes	905,566
Transaction-related contingencies	11,194,301
Trade-related contingencies	5,642,462
Other commitments	89,821,331
	<u>107,563,660</u>

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

(b) **Derivatives**

	2012			
	<i>Notional amount</i> MOP'000	<i>Credit risk weighted amount</i> MOP'000	<i>Fair Value</i>	
<i>Assets</i> MOP'000			<i>Liabilities</i> MOP'000	
Exchange rate derivatives	101,467,882	484,166	257,000	516,943
Interest rate derivatives	779,606	4,258	-	63,153
Equity derivatives	132,872	266	1,565	1,565
	<u>102,380,360</u>	<u>488,690</u>	<u>258,565</u>	<u>581,661</u>

## Accounting policies

### (a) *Statement of compliance*

This disclosure of financial information has been prepared in accordance with the requirements as set out in the Guidelines on the Disclosure of Financial Information issued by the AMCM.

### (b) *Basis of preparation of the financial statements*

The Branch is part of Bank of China Limited. It is registered as a licensed bank under the Macau Financial System Act under the supervision of the AMCM, accordingly, it is not a separate legal entity. The financial statements of the Branch have been prepared from the books and records of the Branch, which contain evidence of all transactions entered into locally.

The disclosure of financial information is prepared in Macau Patacas (“MOP”), and rounded to the nearest thousand.

The measurement basis used in the preparation of the financial statements is historical cost basis except for available-for-sale debt securities and derivatives which are stated at their fair value as explained in the accounting policies set out in item (c) and (m). As mentioned above, the Branch is a part of the Head Office and therefore no consolidated financial statements are required.

The preparation of financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (c) *Investments*

#### (i) Equity investments

Equity investments over which the Branch does not have control, joint control, or significant influence are accounted for using the cost method. They are recorded initially at cost less impairment allowances, if any (see item (h)). The income is recognised when cash dividends or profit distributions are declared by the investee units.

When equity investments are sold, the actual consideration and the investment’s carrying amount are recognised in profit or loss.

Equity investments over which the Branch has joint control or substantial influence are accounted for using the equity method (see item (e)).

## Accounting policies (continued)

### (c) *Investments (continued)*

#### (ii) Debt investments

Debt investments are classified as either “held-to-maturity debt securities” or “available-for-sale debt securities” according to investment purposes.

Debt securities that the Branch has the positive ability and intention to hold to maturity are classified as held-to-maturity securities.

Held-to-maturity securities are stated at amortised cost less impairment losses, if any (see item (h)). Any premium or discount arising from the purchase of these held-to-maturity debt securities is amortised through profit or loss over the period from the date of purchase to the date of maturity using the effective interest method. The amortisation of discounts and premiums is included in “interest income”. Upon disposal of held-to-maturity debt securities, the difference between the net sale proceeds and the carrying amount is recognised in profit or loss.

Available-for-sale debt securities are stated in the balance sheet at fair value. Changes in fair value are recognised directly in equity in the revaluation reserve when they arise. Where these instruments are interest-bearing, interest calculated using effective interest method is recognised in profit or loss in accordance with the policy set out in item (k)(i). When these instruments are derecognised or impaired (see item (h)), the cumulative gain or loss is reclassified from equity to profit or loss.

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

(i) Loans and advances to customers are presented net of both specific provisions and general provisions for bad and doubtful debts.

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

Specific provisions are made when there is evidence that loans and advances to customers will not be fully recoverable. Specific provisions are made against the difference between the carrying amounts of loans and advances and the recoverable amounts. Recoverable amounts include the estimated cash received from the guarantor or from the disposal of loan collaterals. General provision is maintained at not less than 1% of the aggregate value of loans and advances that are not overdue for more than three months at the date of reporting period. Changes in the provisions are recognised in profit or loss. Where the loans and advances has no reasonable prospect of recovery, the balance is written off. An amount recovered from loans and advances that has been written off will be recognised as income in profit or loss.

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

## Accounting policies (continued)

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

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

**(e) Investments in associate**

Investments in associate in the Branch are accounted for in the financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Branch's share of the associate's net assets. When the investments in associate are disposed of or transferred, the difference between the considerations and the carrying amounts is recognised in profit or loss.

**(f) Property and equipment and depreciation**

Property and equipment are stated in the balance sheet at cost less accumulated depreciation. Depreciation is calculated to write off the cost of property and equipment over their estimated useful lives on a straight-line basis as follows:

- Bank premises	2% to 10% per annum
- Leasehold improvements	33.33% per annum
- Computer software	33.33% per annum
- Office furniture and equipment	5% to 50% per annum
- Motor vehicles	20% per annum

No depreciation is charged in respect of freehold land. Gains or losses on disposal of property and equipment are determined as the differences between the net disposal proceeds and the carrying amounts of the property and equipment. They are accounted for in profit or loss when they arise.

**(g) Leased assets**

Leases which the lessor assumes substantially all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are recognised in profit or loss of each accounting year.

## Accounting policies (continued)

### (h) *Impairment*

At the end of the reporting period, the Branch reviews the carrying amounts of its assets to determine whether there is any indication that those assets, including debt investments and investments in associate, are impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amounts of debt investments are determined by the quoted market price. The recoverable amounts of investments in associate are based on management's valuation using appropriate valuation bases.

Impairment losses are immediately recognised in profit or loss. A reversal of impairment losses is limited to the carrying amount of the assets that would have been determined had no impairment loss been recognised for the assets in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet are translated into MOP at the rates of exchange ruling at the end of reporting period. Foreign currency transactions during the year were translated into MOP at the market rates ruling at the transactions dates. Exchange gains and losses on foreign currency translation are dealt with in profit or loss.

### (j) *Employee benefits*

Salaries, annual bonuses, paid annual leave and contributions to defined contribution pension plans are recognised as expenses in profit or loss in the year in which the associated services are rendered by employees.

### (k) *Income recognition*

#### (i) Interest income

Interest income arising from AMCM Monetary Bills is recognised based on the discounted amount paid and the effective interest rate.

Interest income arising from held-to-maturity debt securities is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisitions, so as to achieve a constant rate of return over the period from the purchase date to the date of maturity.

Other interest income is recognised in profit or loss as it accrues.

#### (ii) Fee and commission income

Fee and commission income arising from services provided by the Branch is recognised when the services are rendered.

## Accounting policies (continued)

### (k) *Income recognition (continued)*

#### (iii) Dividend income

Dividend income from unlisted equity investment is recognised in profit or loss on the date the dividend is declared.

### (l) *Taxation*

Income tax in the financial statements comprises current tax and deferred tax.

Current tax is the expected tax payable on the taxable income for the current year, using tax rates prevailing at the end of reporting period, and any adjustment to the tax payable in respect of previous years.

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

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

### (m) *Off-balance sheet financial instruments*

Off-balance sheet financial instruments include mainly derivatives arising from forward, swap and option transactions undertaken by the Branch in the foreign exchange and interest rate markets.

The accounting for these instruments is dependent upon whether the transactions are undertaken as part of the management of asset and liability portfolios or for trading purpose.

#### (i) Derivatives used for trading purposes

Trading transactions include transactions undertaken to service customers' needs as well as any related hedges.

Transactions undertaken for trading purposes are marked to market in respect of any excess, and the unrealised gain or loss is recognised in profit or loss.

#### (ii) Derivatives used for asset and liability management purposes

Derivatives that qualify as hedges are valued on an equivalent basis to the underlying assets, liabilities or net positions against which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

## Accounting policies (continued)

**(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances on hand and demand deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash, and are subject to insignificant risk of changes in value.

**(o) Other receivables**

Other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment losses, if any (see item (h)).

**(p) Other payables**

Other payables are initially recognised at fair value and therefore stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(q) Related parties**

For the purposes of these financial statements, a party is considered to be related to the Branch if that person or that entity:

- (i) is the Branch's subsidiaries and affiliates, and any party that the Branch exerts control over or that party exerts control over the Branch;
- (ii) is the Branch's major directors, senior management and their staff as well as the corresponding persons in affiliated companies;
- (iii) is a company under direct and indirect control of the persons referred to in (ii) above;
- (iv) is a company to which the board of directors and/or the supervisory board of the Branch belong; and
- (v) is any person that holds directly or indirectly a qualifying holding in the Branch and a company that such person has direct or indirect control.

**(r) During the year there were no significant changes in accounting policies adopted by the Branch.**

## Related parties transactions

(Expressed in thousands of Macau Patacas)

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

#### *Key management personnel of the Branch*

During the year, the Branch provided credit facilities to key management personnel of the Branch and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2012 MOP'000
At 1 January	13,839
Additional loans made during the year	4,125
Repayment during the year	<u>(2,301)</u>
At 31 December	<u><u>15,663</u></u>

No provision have been recorded against balances outstanding during the year with key management personnel, and no specific provision has been made on balances with key management personnel at the year end.

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

During the year, the Branch entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and guarantees issued. The transactions were priced at the relevant market rates at the time of each transaction. The Branch used the information services of the Head Office on a cost basis.

## Related parties transactions (continued)

(Expressed in thousands of Macau Patacas)

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

The balances of related party transactions during the year are set out below:

	<i>Balance with Head Office and overseas branches MOP'000</i>	<i>Balance with associate MOP'000</i>	<i>Balance with group companies MOP'000</i>	<i>Total MOP'000</i>
<b>2012</b>				
Interest income	1,756,399	-	401,076	2,157,475
Interest expense	(1,754,823)	(2,084)	(142,105)	(1,899,012)
Management fee	(52,183)	-	-	(52,183)
Agency fee	-	-	116,877	116,877
	<u>(50,607)</u>	<u>(2,084)</u>	<u>375,848</u>	<u>323,157</u>

The outstanding amount of related party transactions as at the end of the reporting period are set out below:

	<i>Balance with Head Office and overseas branches MOP'000</i>	<i>Balance with associate MOP'000</i>	<i>Balance with group companies MOP'000</i>	<i>Total MOP'000</i>
<b>2012</b>				
Amounts due from financial institutions	94,245,108	-	43,934,281	138,179,389
Amounts due to financial institutions	(108,625,361)	-	(7,262,798)	(115,888,159)
Customer deposits	-	(168,179)	(608,559)	(776,738)
	<u>(14,380,253)</u>	<u>(168,179)</u>	<u>36,062,924</u>	<u>21,514,492</u>

## Credit risk management

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to fully perform agreed terms.

The Branch invests available cash and cash equivalents with various financial intermediaries. It is exposed to credit-related losses in the event of counterparties' non-performance to financial instruments. The Branch management does not expect any counterparties to fail to meet their obligations in view of their high credit ratings.

The Branch extends credit in accordance with the exposure limits set out in Article 72 of the Financial System Act of Macau. It does not have significant exposure to any single individual or group of customers or counterparties. To reduce exposure to credit risk, the Branch performs ongoing credit evaluations of its customers' financial circumstances and makes specific and general provisions for potential loan losses.

Through years of effort, the Branch has gradually established an advanced credit risk management system based on the principles of unified credit, hierarchical authority, scientific decision-making and effective monitoring. In particular, the policy system is made up of credit policy, industry policy, rating management, the group credit management, risk classification and reserve funding policy. The credit management mechanism involves hierarchical authority, customer acceptance criteria, real-time monitoring, inspection and evaluation. The issuance of credit facilities must go through three important processes – initiation, approval and execution. These are implemented by the Branch's business segment, the Risk Management department and the Credit Administration department respectively. After considering the perspectives of customer acceptance, risk assessment and the implementation conditions, these three important segments coordinate, cooperate and monitor each others to ensure the robustness of our credit risk management system.

## Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(i) *Geographical analysis of debt investments and derivatives*

Loans and commitment, debt investments (including AMCM Monetary Bills) and derivatives by geographical areas over or equal to 10% of total credit exposure.

Region	2012		
	Loans and commitment MOP'000	Debt investments MOP'000	Derivatives MOP'000
<b>Macau SAR</b>	88,017,157	11,150,220	53,366
<i>in which:</i>			
- banks	-	-	-
- governments	-	11,150,220	-
- public sector entities	-	-	-
- others	88,017,157	-	53,366
<b>Hong Kong SAR</b>	70,776,935	2,060	157,102
<i>in which:</i>			
- banks	-	-	157,102
- governments	-	-	-
- public sector entities	-	-	-
- others	70,776,935	2,060	-
<b>Mainland China</b>	55,219,113	4,009,008	48,097
<i>in which:</i>			
- banks	-	3,633,817	48,097
- governments	-	375,191	-
- public sector entities	-	-	-
- others	55,219,113	-	-
<b>Others</b>	42,247,399	-	-
<i>in which:</i>			
- banks	-	-	-
- governments	-	-	-
- public sector entities	-	-	-
- others	42,247,399	-	-
<b>Total</b>	<b>256,260,604</b>	<b>15,161,288</b>	<b>258,565</b>

## Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

### (ii) Geographical analysis of loans and advances to customers

Distribution of loans and advances to customers by region over or equal to 10% of total loans

Region	2012		
	Gross loans and advances to customers MOP'000	Overdue loans and advances MOP'000	Specific provision MOP'000
Macau SAR	82,318,240	214,683	97,590
Hong Kong SAR	22,654,239	84,823	82,386
Mainland China	52,186,724	7,318	42
Others	9,280,070	-	-
Total	<u>166,439,273</u>	<u>306,824</u>	<u>180,018</u>

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

## Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

### (iii) Industry distribution on loans and advances to customer

	2012		
	<i>Gross loans and advances to customers</i> MOP'000	<i>Past due loans and advances</i> MOP'000	<i>Specific provision</i> MOP'000
Agriculture and fishery	13,527	-	-
Mining	1,173,266	-	-
Manufacturing			
– Food and beverage	1,378,211	-	-
– Garments	1,410,953	12,238	8,814
– Other textile products	378,460	-	-
– Leather products	6,124	-	-
– Wooden and other furniture	7,822	-	-
– Ceramic ware	-	-	-
– Paper, printing and publishing	1,416,375	-	-
– Toys	10,992	-	-
– Machinery, electrical and electronics	1,860,128	70,003	70,003
– Artificial flowers	906	-	-
– Others	4,353,864	5,720	570
Water, electricity and gas	7,619,422	-	-
Construction and public works	22,107,822	158,917	59,765
Trading	45,848,276	4,299	1,184
Restaurants, hotels, etc	10,088,096	-	-
Transportation, storage and communication	7,841,656	36,300	36,300
Non-monetary financial institutions	8,234,054	-	-
Other credit			
– for purchase of private housing	34,065,703	9,324	226
– for other personal use	9,070,534	1,162	1,046
– others	9,553,082	8,861	2,110
	<u>166,439,273</u>	<u>306,824</u>	<u>180,018</u>

According to AMCM's requirements, a general provision is made at 1% of the aggregated balance of loans and advances (with overdue days less than 3 months), guarantees and contingent assets.

**Credit risk management (continued)**  
(Expressed in thousands of Macau Patacas)

(iv) **Maturity analysis on assets and liabilities**

**As at 31 December 2012**

	<i>Maturity date of financial instruments</i>						<i>Total</i>
	<i>On Demand</i>	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 3 years</i>	<i>More than 3 years</i>	
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
<b>Financial assets</b>							
Cash on hand	1,952,189	-	-	-	-	-	1,952,189
Amounts due from financial institutions	29,209,986	34,336,538	47,936,239	44,515,840	-	-	155,998,603
AMCM Monetary Bills	-	174,935	1,703,011	9,272,274	-	-	11,150,220
Held-to-maturity debt securities	-	-	-	159,680	420,325	2,060	582,065
Available-for-sale debt securities	-	-	-	1,806,715	1,297,909	324,379	3,429,003
Loans and advances to customers	-	3,775,328	8,550,878	58,780,357	27,116,173	68,216,537	166,439,273
	<u>31,162,175</u>	<u>38,286,801</u>	<u>58,190,128</u>	<u>114,534,866</u>	<u>28,834,407</u>	<u>68,542,976</u>	<u>339,551,353</u>

## Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

### (iv) Maturity analysis on assets and liabilities (continued)

As at 31 December 2012 (continued)

	Maturity date of financial instruments						Total
	On Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	More than 3 years	
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	
<b>Financial liabilities</b>							
Deposits and balances of banks and financial institutions	2,987,539	86,580	621,836	356,390	-	-	4,052,345
Deposits from non-bank customers	77,239,713	36,177,772	31,823,643	34,635,581	583,128	-	180,459,837
Deposits from public sector entities	1,703,568	3,189,071	3,090,220	13,121,813	54,056	-	21,158,728
Deposits from associated companies	13,679	61,800	92,700	-	-	-	168,179
Deposits from head office and overseas branches	14,068,282	15,872,349	21,563,842	43,133,748	8,481,324	5,507,363	108,626,908
Deposits from group companies	859,285	4,538,888	968,368	1,504,816	-	-	7,871,357
Certificates of deposit issued	-	-	1,564,280	2,337,463	3,791,244	-	7,692,987
	<u>96,872,066</u>	<u>59,926,460</u>	<u>59,724,889</u>	<u>95,089,811</u>	<u>12,909,752</u>	<u>5,507,363</u>	<u>330,030,341</u>

## Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

In accordance with the guidelines of AMCM with respect to the classification of loan portfolio, non-performing accounts shall be classified by taking into account the period after the respective maturity, in the following manner:

- (a) Group I - up to 3 months;
- (b) Group II - over 3 months and less than or equal to 12 months;
- (c) Group III - over 12 months and less than or equal to 18 months;
- (d) Group IV - over 18 months

A minimum specific provision shall be set up for all non-performing accounts based on their respective balances net of the realisable value of any existing and duly formalised tangible collateral at each quarter ended in the following manner:

<i>Group</i>	<i>Accumulated provision</i>
II	40%
III	80%
IV	100%

(v) *Overdue loans and advances to customers*

	<i>2012</i>	
	<i>MOP'000</i>	<i>% of total loans</i>
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
- 6 months or less but over 3 months	18,841	0.01%
- 1 year or less but over 6 months	150,119	0.09%
- Over 1 year	137,864	0.08%
	<u>306,824</u>	<u>0.18%</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>44,838</u>	
Specific provision made on overdue loans and advances	<u>180,018</u>	

**Credit risk management (continued)**  
*(Expressed in thousands of Macau Patacas)*

**(vi) Overdue other assets**

	2012	
	MOP'000	% of total other assets
Other assets which have been overdue:		
- 6 months or less but over 3 months	117,156	15.96%
- 1 year or less but over 6 months	201	0.03%
- Over 1 year	2,706	0.37%
	<u>120,063</u>	<u>16.36%</u>
Specific provision made on overdue other assets	<u>32,095</u>	

**(vii)** During the year, there were no overdue loans and advances and placement due from credit institutions.

## Market risk management

Under the Group's unified risk appetite, the Branch's objective is to manage the market risk within an acceptable range and reach a reasonable balance between risks and benefits, thereby promoting business development. This can be achieved through effective management and by attaining the optimum distribution of risk capital. The Branch also follows the basic rules of 'unity, integration and promptness' when dealing with any issues and head office has central control of the market risk. The Branch also fully considers other potential hazards, makes sound decisions and responds rapidly.

The Branch has developed a series of integrated approaches and conditions relating to market risk management. Thanks to the progressive risk monitoring tools, the Branch is able to strictly distinguish between trading accounts and bank accounts, working in cooperation and adopting plan flow management. Furthermore, in accordance with the request of the AMCM and head office, the Branch has set up a market risk information system made up of daily, monthly, quarterly and ad hoc reports for monitoring limits, measuring indicators as well as performing qualitative analyses.

## Interest rate risk management

The Branch's objective for interest rate risk management, based on its overall business strategy, involves controlling the adverse effects of changes in the interest rate on earnings and economic value, and maintaining sustainable revenue growth.

The Branch is exposed to interest rate risk arising from mismatches in maturities and repricing periods, and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Branch manages interest rate risk primarily through the monthly interest rate repricing gap analysis. The gap analysis is also used to measure the impact of changes in interest rate on earnings, under the key assumption that there is parallel movement in all interest rates and that a stable level of assets and liabilities is maintained, with the Branch taking action to hedge or lower the interest rate risk.

## Operational risk management

The Branch defines operational risk as “losses caused by imperfect or problematic internal processes, personnel and systems or external events, including legal risk but excluding strategic risk and reputational risk”. Operational risk may occur in all of the Branch’s business lines, and the risks that may cause losses to the Branch include internal and external fraud; employment system and workplace safety; customer, product and business activity; damage to physical assets; IT system events; and implementation, delivery and process management.

The Branch manages its operational risk through a structure that suits the scale and complexity of its business. The Branch has built a standardised system of operational risk policies and regulations for the entire branch that provides methods and guidelines so that operational risk is managed professionally, thoroughly and uniformly. The system is based on the following three aspects: (1) the classification standards for operational risk have been standardised and there is a unified management language; (2) systematic management measures have been established based on the management cycle of risk identification, assessment, mitigation, monitoring and reporting; and (3) a standardised management framework and operational mechanism for new products, business outsourcing and business continuity have been introduced.

The Branch utilises a range of tools for managing operational risk, including: (1) conducting an operational risk and control assessment (“RACA”) to gain a dynamic understanding of the operational risk status of the Branch’s business lines and institutions, identifying potential risks in business processes, systems and personnel, and taking corrective measures for unacceptable risk exposure; (2) establishing Key Risk Indicators (“KRI”) by collecting statistics from its day-to-day business operations, and conducting quantitative monitoring and analysis of the likelihood, impact and effectiveness of certain controls for key risks – this should give early warnings of any abnormalities in the KRIs and trigger investigation and rectification work; and (3) engaging in operational Loss Data Collection (“LDC”) across the Branch, allowing it to monitor the actual loss amounts and distribution of operational risks, conduct in-depth analyses of the causes of material operational risk events, and take appropriate rectification measures.

The Branch continues to monitor operational risk loss events domestically and overseas, analyses risk prevention problems arising from external events and enhances its risk control ability. It has launched internal control inspections into high-risk business areas, has recorded risk control problems identified in internal and external inspections, and has adopted an internal control rectification mechanism featuring centralised management and unified follow-up, thus fostering the constant improvement of risk control.

## Foreign exchange risk management

*(Expressed in thousands of Macau Patacas)*

The main denominated currencies for the banking services are Macau patacas (“MOP”), Hong Kong dollars (“HKD”) and United States dollars (“USD”). Since the exchange rates between these currencies are pegged, exchange rate fluctuations have relatively little impact on the Branch’s performance. Given the internationalisation of the Renminbi (“RMB”), it increasingly becomes one of the major currencies for the Branch. The core sources of foreign capital are ordinary deposits, interbank lending and currency swaps. By optimising foreign currency allocation, the Branch has largely reduced the potential occurrence of currency mismatch risks.

The Branch effectively controls and manages foreign currency exposures to avoid the negative effects of currency fluctuations.

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

	<i>2012</i>
	MOP'000
HKD	7,927,932
USD	(113,081)
Others	(290,478)

*Further analysis for the currencies which are over or equal to 10% of total foreign currencies:*

	<i>2012</i>
	MOP'000
HKD	
Spot assets	101,068,688
Spots liabilities	(140,106,475)
Forward purchases	47,567,070
Forward sales	(601,325)
Net option position	(26)
Net long/(short) position	<u><u>7,927,932</u></u>

## Liquidity risk management

The Branch's objective for liquidity risk management is to maintain the liquidity at a prudent level.

The Branch formulates policies by implementing proactive liquidity risk management strategies according to the principle of matching the source and use of the funds. The Asset and Liability Committee ("ALCO") is responsible for validating the Branch's liquidity risk management policy. ALCO authorises the Asset and Liability Management department to perform liquidity risk management duties – including checking the liquidity of the Branch and implementing stress tests – to ensure the liquidity indicators are aligned with the AMCM requirements. Under this policy, the Branch's liquidity indicators should be in line with AMCM's Guideline on Management of Liquidity Risk. Since the liquidity risks are well controlled and managed, no liquidity crises have occurred to date.

### (i) *Average weekly liquidity for the year*

	2012
	MOP'000
Average minimum weekly amount of cash in hand	4,338,157
Average weekly amount of cash in hand	5,205,788

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

### (ii) *Average liquidity ratio*

	2012
1 month current ratio	55%
3 months current ratio	67%

The liquidity ratio is computed as the simple average of the percentage of specified assets to liabilities in the last week of each calendar month.

### (iii) *Average solvency assets*

	2012
	MOP'000
Solvency assets	88,246,028
Underlying liabilities	204,431,095
Ratio of solvency assets to underlying liabilities	43%

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

## Other information

(Expressed in thousands of Macau Patacas)

(a) **Operating lease commitments**

Non-cancellable operating leases are payable as follows:

	2012 MOP'000
Less than one year	25,171
Between one and five years	73,846
Over five years	21,577
	<u>120,594</u>

The Branch leases a number of properties under operating leases. The leases typically run for an initial period of 1 year to 10 years, with an option to renew the lease when all terms are negotiated. None of the leases includes contingent rentals.

(b) **Capital commitments**

Capital commitments made but not provided for in the financial statements were as follows:

	2012 MOP'000
Authorised but not contracted for	<u>168,700</u>

(c) As stated in note (b) under the accounting policies of the disclosure of financial information, the Branch is one of the branches of Bank of China Limited ("BOC"). Therefore it is not required to prepare consolidated financial statements. The details of BOC's consolidated capital adequacy ratio, consolidated capital and reserves, consolidated balance sheet and consolidated income statement are published on the following website <http://www.boc.cn/en/investor>. For more comprehensive understanding of the financial position and results of operations of BOC, the disclosure of financial information should be read in conjunction with the audited financial statements.