

Bank of China Limited,
Macau Branch

Disclosure of Financial Information

31 December 2013

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 2013 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 24 March 2014 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 2013, 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.

Ng Kar Ling Johnny, Certified Public Accountants

24th Floor, B&C
Bank of China Building
Avenida Doutor Mario Soares
Macau,

24 March 2014

Summary of 2013 Management Report of Bank of China Macau Branch

In 2013, the global economy experienced gradual recovery and Macau's economy continued to grow steadily. On the back of this upward momentum, Bank of China Macau Branch ("the Branch") made active efforts to expand its markets overseas while consistently delivering excellent services to its local clients, achieving rapid and balanced growth in all its business lines.

True to its philosophy "Rooted in Macau, Steadfast in Serving", the Branch has insisted on seeking both economic and social benefits. To that end, the Branch has devoted much effort in transformative business development and financial innovation, aiming to maximize the quality of financial solutions provided to its clients. During the year, a number of sub-branches underwent renovation; 135 new automatic banking machines were installed; the Branch also became the first in Macau to launch the WeChat Banking Service. These changes were made to give the Branch's clients the experience of seamless banking services "anytime, anywhere, anyway". On top of that, the Branch also launched "The BOC Small and Medium Enterprises Comprehensive Banking Services" ("BOC SME Services") in response to Macau SAR government's policy to support local small and medium enterprises development and bring diversification to the local economy. Meanwhile, by fully leveraging Macau's open economy and simple tax regime, the Branch has made remarkable achievements in expanding both its domestic and overseas markets, offering world class quality banking services to some of the Fortune Global 500 companies through its series of innovative products. In terms of corporate governance, the Branch has made steps to optimize its management process, raise compliance awareness, ensure compliant operation and improve its risk management.

The Branch organized various charity events in 2013 to help build a harmonious Macau and promote the traditional virtues of giving and serving. The Recreation Club of Bank of China Macau Branch and the Bank of China Macau Youth Association both encouraged staff members to participate in social and community services. The Bank of China Macau Volunteers Team organized members to help and visit various charity organizations and underprivileged groups for more than 500 person-times during the year. The Branch's community service has been widely recognized by the general public and received numerous awards.

In 2014, the Branch will continue to provide high quality and convenient financial services suited to its clients' needs, and expand its e-banking capacity. Being customer-centric and technology-led, the Branch will strive to achieve the Bank of China Group's corporate strategic goal of "Shouldering social responsibility and being the best bank". 2014 marks the 15th anniversary of Macau's returning to the motherland. The Branch will continue to support the Macau SAR government, seek economic as well as social benefits in its operation and look forward to seizing growth opportunities with its clients and Macau together in the years to come.

Bank of China Macau Branch
General Manager
Ye Yixin
24 March 2014

BALANCE SHEET

As at 31 December 2013

(Expressed in thousands of Macau Patacas)

	2013		
	<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>
Assets			
Cash	4,032,978	-	4,032,978
Deposits at AMCM	6,793,542	-	6,793,542
Certificates of indebtedness of Macau SAR	5,384,315	-	5,384,315
Accounts Receivable	34,389	-	34,389
Current deposits at other local credit institutions	19,520	-	19,520
Current deposits at other overseas credit institutions	8,658,662	-	8,658,662
Other current assets	2	-	2
Loans and advances	226,258,646	184,678	226,073,968
Placement to local credit institutions	11,580,000	-	11,580,000
Call and fixed deposits at overseas credit institutions	153,286,977	-	153,286,977
Shares, bonds and equities	2,437,161	-	2,437,161
Debtors	558,294	-	558,294
Financial investments	78,968	-	78,968
Properties	922,596	462,959	459,637
Equipments	617,301	457,950	159,351
Deferred expenses	274,768	238,015	36,753
Construction in progress	24,854	-	24,854
Other fixed assets	196	196	-
Internal and adjustment accounts	2,509,230	-	2,509,230
TOTAL	423,472,399	1,343,798	422,128,601

BALANCE SHEET (Continued)
 As at 31 December 2013
 (Expressed in thousands of Macau Patacas)

	<i>2013</i>	
	<i>Sub-total</i>	<i>Total</i>
	<i>MOP'000</i>	<i>MOP'000</i>
Liabilities		
Bank notes of Macau SAR in circulation		5,573,293
Current deposits	94,210,124	
Call deposits	6,433	
Fixed deposits	158,575,898	252,792,455
Deposits from public sector		26,959,986
Amounts due to local credit institutions	3,727,325	
Amounts due to overseas credit institutions	119,520,325	
Cheques and bills payable	1,118,110	
Creditors	1,645,563	
Other liabilities	621	126,011,944
Internal and adjustment accounts		3,921,925
Provision		2,555,213
Operating funds		1,032,600
Revaluation reserves		(19,850)
Profit for the period		3,301,035
TOTAL		422,128,601

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2013

(Expressed in thousands of Macau Patacas)

Income Statement			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Operating costs	4,413,223	Operating income	9,569,855
Personnel expenses		Income from banking services	721,821
Staff costs	980,518	Other operating income	213,168
Staff benefits	104,242	Income from securities and financial investment	142,562
Supplies by third party	49,940	Other banking income	35,814
Services provided by third party	321,216	Non operating income	49,406
Other banking expenses	126,505		
Tax expenses	144,772		
Non operating expenses	943		
Depreciation expenses	124,671		
Provision	748,397		
Operating profit	3,718,199		
TOTAL	10,732,626	TOTAL	10,732,626

PROFIT AND LOSS ACCOUNT (Continued)
 For the year ended 31 December 2013
 (Expressed in thousands of Macau Patacas)

Profit and loss account			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Loss from previous years	72,308	Operating profit	3,718,199
Special loss	321	Income from previous years	45,882
Tax on profit	462,900	Special profit	175
Profit	3,301,035	Provision written off	72,308
TOTAL	3,836,564	TOTAL	3,836,564

Approved and authorised for issue by the management of the Branch on 24 March 2014

Ye Yixin

General Manager

CASH FLOW STATEMENT
 For the year ended 31 December 2013
 (Expressed in thousands of Macau Patacas)

	2013 <u>MOP'000</u>
Operating activities	
Profit before taxation	3,763,935
Adjustments for non-cash items:	
Depreciation	124,671
Amortisation of discount and premium of debt securities	(2,214)
Interest income from debt investments	(230,805)
Loss on disposal of property and equipment	146
Dividend income	(927)
Share of profits of associate	(5,645)
Provisions for loans and other losses	703,738
	<u>588,964</u>
	<u>4,352,899</u>
Net changes in operating assets:	
Amounts due from financial institutions	1,361,661
AMCM Monetary Bills	650,301
Loans and advances to customers	(59,874,258)
Certificate of Indebtedness of Macau SAR	(1,137,245)
Other assets	(901,908)
	<u>(59,901,449)</u>
Net changes in operating liabilities:	
Amounts due from financial institutions	2,882,143
Customers deposits	67,961,261
Bank notes of Macau SAR in circulation	1,096,529
Other liabilities	344,180
Certificates of deposit issued	1,700,167
	<u>73,984,280</u>
Net cash inflow from operating activities	18,435,730
Macau Complementary Tax paid	(324,494)
	<u>18,111,236</u>

CASH FLOW STATEMENT (Continued)
 For the year ended 31 December 2013
 (Expressed in thousands of Macau Patacas)

	2013
	<u>MOP'000</u>
Net cash inflow from operating activities	<u>18,111,236</u>
Investing activities	
Dividends received	927
Proceeds from sale of property and equipment	210
Interest received from debt investments	144,175
Purchase of property and equipment	(137,413)
Purchase of debt investments	(1,513,011)
Proceeds from sale of debt investments	<u>2,017,272</u>
Net cash inflow from investing activities	<u>512,160</u>
Financing activities	
Funds remitted to Head Office	<u>(2,408,976)</u>
Net cash outflow from financing activities	<u>(2,408,976)</u>
Increase in cash and cash equivalents	16,214,420
Cash and cash equivalents as at 1 January	<u>92,955,210</u>
Cash and cash equivalents as at 31 December	<u>109,169,630</u>
Cash flows from operating activities include:	
Interest received	8,001,613
Interest paid	<u>4,234,530</u>
 The following table is the analysis cash and cash equivalents of the branch:	
Cash in hand	<u>4,032,978</u>
Repayable on demand	
- Balance with AMCM	6,793,542
- Balance with financial institutions	10,914,160
Balance with financial institutions with original maturities	151,062,871
AMCM Monetary Bills	<u>10,499,919</u>
	<u>179,270,492</u>
Cash and cash equivalents as at 31 December	183,303,470
Less: Balance with financial institutions with original maturities over 3 months	(63,633,921)
Less: AMCM Monetary Bills with original maturities over 3 months	<u>(10,499,919)</u>
Cash and cash equivalents which are readily convertible into cash as at 31 December	<u>109,169,630</u>

OFF-BALANCE-SHEET EXPOSURES

(Expressed in thousands of Macau Patacas)

As at 31 December 2013, 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:

	2013 MOP'000
Direct credit substitutes	8,159,346
Transaction-related contingencies	15,384,294
Trade-related contingencies	4,455,103
Other commitments	89,557,858
	<u>117,556,601</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**

	2013			
	<i>Notional amount</i>	<i>Credit risk weighted amount</i>	<i>Fair Value</i>	
	MOP'000	MOP'000	<i>Assets</i>	<i>Liabilities</i>
	MOP'000	MOP'000	MOP'000	MOP'000
Exchange rate derivatives	123,832,117	653,359	660,862	913,906
Interest rate derivatives	1,445,936	9,669	877	34,955
Equity derivatives	105,293	211	1,188	1,174
	<u>125,383,346</u>	<u>663,239</u>	<u>662,927</u>	<u>950,035</u>

ACCOUNTING POLICIES

(a) *Statement of compliance*

The financial statements of the Branch have been prepared in accordance with the requirements as set out in Decree-Law No. 32/93/M and the Macau Financial Reporting Standards (“MFRSs”) issued under the Administrative Regulation No. 25/2005 of Macau Special Administrative Region (“Macau SAR”). This disclosure of financial information has been prepared in accordance with the Circular No. 026/B/2012-DSB/AMCM - Guidelines on the Disclosure of Financial Information issued by the Monetary Authority of Macao (“AMCM”).

(b) *Basis of preparation of the financial statement*

The Branch is a 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 have been prepared from the books and records of the Branch, which contain evidence of all transactions entered into locally.

The financial statements are 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).

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 to 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. In addition, relevant loans and advances are classified as non-performing when there is evidence indicating that they cannot be fully recovered.

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 have 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 received 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, investments in associate and other receivables, 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 the 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 are 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) *Derivatives*

Derivatives include mainly 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 serve 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 in 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 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:

	2013 MOP'000
As at 1 January	15,663
Additional loans made during the period	2,869
Repayment during the period	(2,111)
As at 31 December	<u>16,421</u>

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no individually assessed impairment allowance has been made on balances with key management personnel at the year end.

(b) **Transactions between group members**

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 between group members (continued)

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

	<i>Balance with Head Office and other overseas branches</i>	<i>Balance with an associate</i>	<i>Balance with group members</i>	<i>Total</i>
	MOP'000	MOP'000	MOP'000	MOP'000
2013				
Interest income	2,605,562	-	474,102	3,079,664
Interest expense	(1,312,404)	(1,994)	(169,743)	(1,484,141)
Management fee	(76,765)	-	(10,679)	(87,444)
Agency fee	-	-	144,972	144,972
Other fee and commission income	4,386	-	28,432	32,818
Other fee and commission expense	(55,010)	-	-	(55,010)
	<u>1,165,769</u>	<u>(1,994)</u>	<u>467,084</u>	<u>1,630,859</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 other overseas branches</i>	<i>Balance with an associate</i>	<i>Balance with group members</i>	<i>Total</i>
	MOP'000	MOP'000	MOP'000	MOP'000
2013				
Amounts due from financial institutions	123,183,900	-	37,594,239	160,778,139
Loans and advances to customers			1,989,209	1,989,209
Amounts due to financial institutions	(97,194,653)	-	(17,212,117)	(114,406,770)
Customer deposits	-	(193,394)	(2,123,613)	(2,317,007)
	<u>25,989,247</u>	<u>(193,394)</u>	<u>20,247,718</u>	<u>46,043,571</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 loans and commitments, debt investments and derivatives**

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

Region	2013		
	<i>Loans and commitments</i>	<i>Debt investments</i>	<i>Derivatives</i>
	MOP'000	MOP'000	MOP'000
Macau SAR	146,421,399	11,529,919	10,114
<i>in which:</i>			
- banks	-	1,030,000	-
- governments	-	10,499,919	-
- public sector entities	-	-	-
- others	146,421,399	-	10,114
Hong Kong SAR	80,523,139	2,060	353,018
<i>in which:</i>			
- banks	-	-	334,892
- governments	-	-	-
- public sector entities	-	-	-
- others	80,523,139	2,060	18,126
Mainland China	74,929,332	2,435,101	299,748
<i>in which:</i>			
- banks	-	-	210,818
- governments	-	2,435,101	-
- public sector entities	-	-	-
- others	74,929,332	-	88,930
Others	13,942,634	-	47
<i>in which:</i>			
- banks	-	-	-
- governments	-	-	-
- public sector entities	-	-	-
- others	13,942,634	-	47
Total	315,816,504	13,967,080	662,927

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 equals to 10% of total loans or above and by geographical areas.

<i>Region</i>	<i>2013</i>		
	<i>Gross loans and advances to customers</i>	<i>Overdue loans and advances</i>	<i>Specific provision</i>
	MOP'000	MOP'000	MOP'000
Macau SAR	107,462,781	144,103	101,960
Hong Kong SAR	37,166,305	14,820	14,820
Mainland China	69,974,284	7,131	142
Others	11,655,276	-	-
Total	226,258,646	166,054	116,922

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

	2013		
	<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 fisheries	11,183	-	-
Mining industries	200,360	-	-
Manufacturing industries			
- Foodstuffs and beverages	2,297,547	-	-
- Clothing	1,606,795	12,238	8,814
- Other textile productions	854,821	-	-
- Leather articles	-	-	-
- Wood and furniture	19,247	-	-
- Ceramics	-	-	-
- Paper, printing and publishing	4,763,344	-	-
- Toys	50,214	-	-
- Machinery and other electrical and electronic goods	2,982,048	-	-
- Artificial flowers	858	-	-
- Other manufacturing industries (not mentioned above)	8,375,006	5,150	-
Electricity, gas and water	7,887,434	-	-
Construction and public works	30,249,149	404	-
Wholesale and retail trade	57,253,862	4,261	1,146
Restaurants, hotels and similar	5,769,843	-	-
Transport, warehousing and communications	7,583,057	118,831	102,324
Non-monetary financial institutions	15,155,709	-	-
Gaming	-	-	-
Exhibition and conference	5,483	-	-
Education	299,702	-	-
Information technology	49,564	-	-
Other industries	6,731,176	3,296	2,973
Personal loans			
- Personal housing loans	44,769,338	13,277	148
- Credit card balances (interest bearing components)	47,926	1,262	505
- Car loans	15,141	533	424
- Other personal loans	29,279,839	6,802	588
	<u>226,258,646</u>	<u>166,054</u>	<u>116,922</u>

According to the requirements of AMCM, a general provision of 1% is made of the aggregated balance of loans and advances (with overdue days of 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 2013

	<i>Maturity date of financial instruments</i>						<i>Total</i>
	<i>On Demand</i>	<i>Less than 1 month</i>	<i>Between 1 to 3 months</i>	<i>Between 3 to 12 months</i>	<i>Between 1 to 3 years</i>	<i>Over 3 years</i>	
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
Financial assets							
Cash in hand	4,032,978	-	-	-	-	-	4,032,978
Amounts due from banks	17,707,702	52,883,529	62,168,626	36,010,716	-	1,030,000	169,800,573
AMCM Monetary Bills	-	2,019,258	1,997,678	6,482,983	-	-	10,499,919
Held-to-maturity debt securities	-	-	-	421,403	-	2,060	423,463
Available-for-sale debt securities	-	-	-	315,354	1,698,344	-	2,013,698
Loans and advances to customers	-	4,420,849	11,539,593	79,547,570	42,814,138	87,936,496	226,258,646
	<u>21,740,680</u>	<u>59,323,636</u>	<u>75,705,897</u>	<u>122,778,026</u>	<u>44,512,482</u>	<u>88,968,556</u>	<u>413,029,277</u>

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

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

As at 31 December 2013 (continued)

	Maturity date of financial instruments						Total
	On Demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 3 years	Over 3 years	
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	
Financial liabilities							
Deposits and balances of banks and financial institutions	5,335,290	14,218,696	4,945,398	1,130,158	-	-	25,629,542
Deposits from non-bank customers	94,239,204	50,120,427	35,616,570	59,395,319	3,207,958	623,705	243,203,183
Deposits from public sector entities	2,468,445	6,178,551	2,077,134	15,341,366	894,490	-	26,959,986
Deposits from associated companies	18,294	82,400	92,700	-	-	-	193,394
Deposits from head office and overseas branches	8,030,395	23,340,331	19,104,649	26,089,869	12,767,825	7,861,584	97,194,653
Certificates of deposit issued	-	603,518	331,985	4,319,060	4,138,591	-	9,393,154
	<u>110,091,628</u>	<u>94,543,923</u>	<u>62,168,436</u>	<u>106,275,772</u>	<u>21,008,864</u>	<u>8,485,289</u>	<u>402,573,912</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 in the following manner:

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

In addition, relevant loans and advances are classified as non-performing when there is evidence indicating that they cannot be fully recovered and specific provisions will be made accordingly.

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

(v) *Overdue loans and advances to customers*

	2013	
	MOP'000	% of total loans
Gross loans and advances to customers of which either principal or interest have been overdue:		
- Non-performing loans and advances of 3 months or less	82,530	0.03%
- Between 3 to 6 months	17,488	0.01%
- Between 6 to 12 months	3,480	0.00%
- Over 1 year	62,556	0.03%
	<u>166,054</u>	<u>0.07%</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>36,742</u>	
Specific provision made on overdue loans and advances	<u>116,922</u>	

(vi) *Overdue other assets*

	2013	
	MOP'000	% of total other assets
Other assets which have been overdue:		
- Between 3 to 6 months	117	0.02%
- Between 6 to 12 months	256	0.04%
- Over 1 year	3,141	0.49%
	<u>3,514</u>	<u>0.55%</u>
Specific provision made on overdue other assets	<u>3,298</u>	

(vii) During the year, there were no overdue loans and advances and placement due from other 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:

	<u>2013</u> MOP'000
HKD	9,332,923
USD	10,953
Others	
Long Position	5,038
Short Position	(44,557)

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

	<u>2013</u> MOP'000
HKD	
Spot assets	114,786,123
Spots liabilities	(150,332,304)
Forward purchases	49,174,137
Forward sales	(4,294,924)
Net option position	(109)
Net long/(short) position	<u><u>9,332,923</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*

	<i>2013</i>
	<u>MOP'000</u>
Average minimum weekly amount of cash in hand	5,094,471
Average weekly amount of cash in hand	10,089,937

The average weekly liquidity is calculated by multiplying the basic liabilities by ratio specified by AMCM.

(ii) *Average liquidity ratio*

	<i>2013</i>
1 month current ratio	43%
3 months current ratio	61%

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

(iii) *Average solvency assets*

	<i>2013</i>
	<u>MOP'000</u>
Solvency assets	100,206,396
Underlying liabilities	251,500,456
Ratio of solvency assets to underlying liabilities	40%

The average ratio of solvency assets to underlying liabilities is calculated as the simple average ratio on the last business day of each calendar month.

OTHER INFORMATION

(Expressed in thousands of Macau Patacas)

(a) **Operating lease commitments**

Non-cancellable operating leases are payable as follows:

	2013 MOP'000
Less than 1 year	24,687
Between 1 to 5 years	61,917
Over 5 years	16,630
	<u>103,234</u>

The Branch leases a number of properties under operating leases ranging from 1 to 10 years initially with options to renew the lease and re-negotiate all terms upon expiry. None of the leases includes contingent rentals.

(b) **Capital commitments**

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

	2013 MOP'000
Authorised but not contracted for	<u>130,360</u>

- (c) As stated in note (b) under the accounting policies of this 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 consolidated capital adequacy ratio, consolidated capital and reserves, consolidated balance sheet and consolidated income statement of BOC are published on the 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.