BEA 東亞銀行

# The Bank of East Asia, Limited
# - Macau Branch

## Disclosure of financial information
## for the year ended
## 31st December, 2013

# Summary of external auditor's report to the General Manager of The Bank of East Asia, Limited - Macau Branch

*(Branch of a commercial bank with limited liability incorporated in the Hong Kong Special Administrative Region)*

We have audited the financial statements of The Bank of East Asia, Limited - Macau Branch for the year 2013 in accordance with the Auditing Standards and Technical Standards of Auditing issued by the Macau Special Administrative Region. In our report dated 14 April 2014, we expressed an unqualified opinion on the financial statements.

The audited financial statements referred to above comprise the balance sheet as at 31 December 2013, and the profit and loss account, statement of changes in reserves, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The accompanying summarised financial statements prepared by the management were derived from the audited financial statements referred to above and the books and records of the Branch. In our opinion, page 3 to page 6 of the summarised financial statements are consistent, in all material respects, with the audited financial statements and the books and records of the Branch.

For a better understanding of the financial position and the results of its operation for the period of The Bank of East Asia, Limited - Macau Branch and the scope of our audit, the summarised financial statements should be read in conjunction with the audited financial statements and our independent auditor's report thereon.

Ieong Lai Kun, Registered Auditor

**KPMG**

Macau, 14 April 2014

# Report of the Branch management

## Principal place of business

The Bank of East Asia, Limited - Macau Branch (“the Branch”) is a branch of The Bank of East Asia, Limited (“Head Office” or “the Bank”). It is domiciled in Macau and has its registered office and principal place of business at Alameda Dr Carlos D’Assumpção Fu Tat Fa Yuen, No. 322-362, R/C AP to AW, Macau.

## Principal activities

The principal activities of the Branch are the provision of banking and related financial services.

## Branch’s activities in Macau

As at 31st December, 2013, the Macau operations of The Bank of East Asia, Limited (“BEA Macau”) recorded growth in customer loans and deposits of 43% and 10%, respectively, year on year. BEA Macau expanded its product offering in 2013 by providing Renminbi bills purchase and enhancing the functions of its e-distribution channels to suit the diverse needs of its customers. In addition, BEA Macau successfully increased its penetration into the local enterprise market, thereby diversifying its customer portfolio.

Leveraging the extensive network of The Bank of East Asia (China) Limited (“BEA China”), BEA’s wholly-owned subsidiary on the Mainland, BEA Macau increased its sale of cross-border banking products, which allowed the unit to command higher yields. Apart from the improved loan yields, BEA Macau stepped up its efforts to control cost and increase contribution from personal banking business. As a result, profit after tax rose by 175% for 2013 – a significant increase over the previous year, which is BEA Macau’s strongest performance since its establishment in 2001.

Looking ahead, BEA Macau will enhance cooperation with BEA China to serve the growing cross-border financing needs of its customers in Macau and neighbouring areas. BEA currently operates one branch and four sub-branches in Macau.

# Balance sheet as at 31st December, 2013

*(Expressed in Macau Patacas)*

| | *As at 31st December, 2013* | | |
|---|---|---|---|
| | *Amounts* MOP | *Reserves, depreciation and provision* MOP | *Net amount* MOP |
| **Assets** | | | |
| Cash | 156,970,026 | - | 156,970,026 |
| Deposits at AMCM | 129,506,767 | - | 129,506,767 |
| Accounts receivables | 9,879,790 | - | 9,879,790 |
| Current deposits at other local credit institutions | 71,474,368 | - | 71,474,368 |
| Current deposits at other overseas credit institutions | 519,464,865 | - | 519,464,865 |
| Loans and advances | 7,557,558,071 | - | 7,557,558,071 |
| Placements to local credit institutions | 363,780,000 | - | 363,780,000 |
| Call and fixed deposits at overseas credit institutions | 1,454,323,113 | - | 1,454,323,113 |
| Debtors | 1,549,785 | - | 1,549,785 |
| Properties | 144,726,944 | 17,695,017 | 127,031,927 |
| Equipments | 69,784,916 | 49,314,147 | 20,470,769 |
| Internal and adjustment accounts | 23,287,187 | - | 23,287,187 |
| **Total** | 10,502,305,832 | 67,009,164 | 10,435,296,668 |

# Balance sheet as at 31st December, 2013 (continued)

*(Expressed in Macau Patacas)*

| | *As at 31st December, 2013* | |
|---|---|---|
| | *Subtotal* | *Total* |
| | MOP | MOP |
| **Liabilities** | | |
| Current deposits | 1,303,463,531 | |
| Fixed deposits | 3,785,866,557 | 5,089,330,088 |
| Amount due to local credit institutions | 262,766,000 | |
| Amount due to overseas credit institutions | 4,435,491,981 | |
| Cheques and bills payable | 439,766,959 | |
| Creditors | 4,554,794 | |
| Other liabilities | 285,910 | 5,142,865,644 |
| Internal and adjusting accounts | | 80,629,701 |
| Provisions | | 10,115,567 |
| Other reserves | | 59,133,647 |
| Current profits | | 53,222,021 |
| | | 10,435,296,668 |

# Off-balance sheet accounts as at 31st December, 2013

*(Expressed in Macau Patacas)*

| *Off-balance sheet accounts* | *As at 31st December, 2013* MOP |
|---|---|
| Values received for custody | - |
| Values received for Collection | 6,898,589 |
| Values received as collateral | 8,735,256,260 |
| Guarantees on account of customers | 144,754,191 |
| Letters of credit | 28,303,221 |
| Acceptances | 22,006,457 |
| Values deposits by bank as collateral | |
| Forward exchange contracts-purchases | 760,558,305 |
| Forward exchange contracts-sales | 760,558,305 |
| Other memorandum items | 1,905,286,118 |

# Profit and loss account
# for the year ended 31st December, 2013
*(Expressed in Macau Patacas)*

*Income statement*

| *Debit* | *Year ended 31st December, 2013 Amount* MOP | *Credit* | *Year ended 31st December, 2013 Amount* MOP |
|---|---|---|---|
| Operating costs | 76,917,526 | Operating income | 205,663,665 |
| Personnel expenses | | Income from banking | |
| Staff costs | 37,331,004 | services | 16,414,800 |
| | | Other operating | |
| Supplies by third party | 1,505,143 | income | 9,160,423 |
| Services provided by | | | |
| third party | 17,766,389 | Other banking income | 243,149 |
| Other banking expenses | 4,323,903 | Non operating income | 170 |
| Tax expenses | 131,146 | | |
| Non operating expenses | 52,787 | | |
| Depreciation expenses | 11,514,102 | | |
| Provisions | 2,190,888 | | |
| Operating profits | 79,749,319 | | |
| **Total** | 231,482,207 | **Total** | 231,482,207 |

# Profit and loss account
# for the year ended 31st December, 2013 (continued)

*(Expressed in Macau Patacas)*

*Profit and loss account*

| *Debit* | *Year ended 31st December, 2013 Amount* MOP | *Credit* | *Year ended 31st December, 2013 Amount* MOP |
|---|---|---|---|
| Tax on profit | 7,260,454 | Operating profit | 79,749,319 |
| Additional provision under AMCM rules | 19,851,133 | Income related to prior years | 584,289 |
| Profit | 53,222,021 | | |
| **Total** | 80,333,608 | **Total** | 80,333,608 |

Approved and authorised for issue by the management of the Branch on 14 April 2014.

Management

# Cash flow statement for the year ended 31st December, 2013

*(Expressed in Macau Patacas)*

| | *Year Ended 31st December, 2013* MOP |
|---|---|
| **Operating activities** | |
| Profit before taxation | 80,333,608 |
| Adjustments for: | |
| Depreciation | 11,514,102 |
| Charge of impairment losses on loans and advances | 2,177,433 |
| **Operating profit before changes in working capital** | 94,025,143 |
| (Increase)/decrease in operating assets: | |
| Placements with banks and other financial institutions with original maturity over three months | (205,752,999) |
| Monetary bills - held-to-maturity with original maturity over three months | 54,822,262 |
| Trade bills | (813,846,889) |
| Trading assets | 665,754 |
| Loans and advances to customers | (1,451,621,757) |
| Accrued interest and other accounts | (14,029,634) |
| Increase in operating liabilities: | |
| Deposits and balances of banks and other financial institutions | 1,762,550,580 |
| Deposits from customers | 468,064,795 |
| Trading liabilities | (4,253) |
| Other accounts and provisions | 463,946,881 |
| **Net cash generated from operations** | 358,819,883 |
| Complementary tax paid | (2,644,436) |
| **Net cash generated from operating activities** | 356,175,447 |

# Cash flow statement for the year ended 31st December, 2013 (continued)

*(Expressed in Macau Patacas)*

| | *Year Ended 31st December, 2013* MOP |
|---|---|
| **Investing activities** | |
| Proceeds from sale of fixed assets | 154,393 |
| Purchase of fixed assets | (7,662,649) |
| **Net cash used in investing activities** | (7,508,256) |
| **Financing activity** | |
| Amount remitted to head office | (19,348,998) |
| **Net cash used in financing activity** | (19,348,998) |
| **Net increase in cash and cash equivalents** | 329,318,193 |
| **Cash and cash equivalents at 1 January** | 2,078,304,681 |
| **Cash and cash equivalents at 31 December** | 2,407,622,874 |
| **Cash flow from operating activities include:** | |
| Interest received | 222,577,967 |
| Interest paid | (68,048,768) |
| **Components of cash and cash equivalents in the cash flow statement** | |
| Cash and balances with banks and other financial institutions | 877,416,025 |
| Placements with banks and other financial institutions (original maturity within three months) | 1,405,207,641 |
| Monetary bills - held-to-maturity (original maturity within three months) | 124,999,208 |
| | 2,407,622,874 |

# Off-balance-sheet exposures for the year ended 31st December, 2013

*(Expressed in Macau Patacas)*

## (a) *Contingent liabilities and commitments*

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

| | *As at 31st December, 2013* MOP |
|---|---|
| Direct credit substitutes | 144,754,191 |
| Trade-related contingencies | 28,303,221 |
| Undrawn credit facilities | 1,904,664,347 |
| | 2,077,721,759 |

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit and guarantees. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Autoridade Monetária de Macau ("AMCM") requires that general provision be maintained at 1% of the guarantees given by the credit institutions. Specific provisions on contingent credit are made when there is evidence that the guarantees given by the credit institutions are not fully recoverable.

## (b) *Derivatives*

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

# Off-balance-sheet exposures for the year ended 31st December, 2013 (continued)

*(Expressed in Macau Patacas)*

## (b) *Derivatives (continued)*

The following is a summary of the notional amounts of each significant type of derivatives:

| | *As at 31st December,2013* MOP |
|---|---|
| Exchange rate contracts | 760,764,305 |
| Equity contracts | 208,966 |
| | 760,973,271 |

Derivatives arise from forward and swap transactions undertaken in the foreign exchange and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The fair values and credit risk weighted amounts of the aforesaid derivative exposures are as follows:

| | *As at 31st December, 2013* | |
|---|---|---|
| | *Assets* MOP | *Liabilities* MOP |
| Fair value | | |
| – Exchange rate contracts | 1,284 | 104,120 |
| – Equity contracts | 892 | 696 |
| | 2,176 | 104,816 |

| | *As at 31st December, 2013* MOP |
|---|---|
| Credit risk weighted amounts | |
| – Exchange rate contracts | 3,043,675 |

# Off-balance-sheet exposures for the year ended 31st December, 2013 (continued)

*(Expressed in Macau Patacas)*

***(b) Derivatives (continued)***

Credit risk weighted amount refers to the amount as computed in accordance with AMCM Guideline Notice 013/93-AMCM on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 50% for exchange rate and interest rate contracts and from 0% to 100% for other derivative contracts.

The Branch did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.

# 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 Disclosure of Financial Information issued by the AMCM.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading and designated at fair value through profit or loss (note (e)(ii)).

The preparation of financial statements in conformity with Financial Reporting Standards issued by the Macau SAR requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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) Translation of foreign currencies***

Foreign currency transactions during the year are translated into Macau Patacas at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated into Macau Patacas at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

# Accounting policies (continued)

## *(d) Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Branch and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit and loss account as follows:

Interest income for all interest-bearing financial instruments is recognised in the profit and loss account on an accruals basis using the effective interest method.

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

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase of the present value of impaired loans due to the passage of time is reported as interest income.

Fee and commission income is recognised in the profit and loss account when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received by the Branch which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Branch making a loan, the fee is recognised as revenue on a straight-line basis over the commitment period.

# Accounting policies (continued)

## *(e) Financial instruments*

(i) Initial recognition

The Branch classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value though profit or loss are expensed immediately.

The Branch recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Categorisation

*Fair value through profit or loss*

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedging accounting are accounted for as trading instruments.

# Accounting policies (continued)

***(e) Financial instruments (continued)***

(ii) Categorisation (continued)

*Fair value through profit or loss (continued)*

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the profit and loss account.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise placements with banks and other financial institutions, trade bills and loans and advances to customers.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note (g)).

# Accounting policies (continued)

### *(e) Financial instruments (continued)*

(ii) Categorisation (continued)

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Branch has the positive intention and ability to hold to maturity, other than (a) those that the Branch, upon initial recognition, designates as at fair value through profit or loss or as available for sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less impairment losses, if any (note (g)).

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

*Other financial liabilities*

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

# Accounting policies (continued)

## *(e) Financial instruments (continued)*

(iv) Derecognition

The Branch derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Branch uses the weighted average method to determine realised gains and losses to be recognised in the profit and loss account on derecognition.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value when changes in fair value recognized in the profit and loss account.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

## *(f) Fixed assets and depreciation*

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (note (g)).

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Branch. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

# Accounting policies (continued)

***(f) Fixed assets and depreciation (continued)***

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

Depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives from 4 to 50 years.

***(g) Impairment of assets***

At each end of the reporting period, the carrying amount of the Branch's assets is reviewed to determine whether there is objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognised in the profit and loss account.

(i) Loans and receivables

The impairment losses of loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for impairment losses consists of two components: individually assessed impairment allowances and collectively assessed impairment allowances.

The Branch first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

# Accounting policies (continued)

## *(g) Impairment of assets (continued)*

(i) Loans and receivables (continued)

The individually assessed impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received and discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Branch. Each impaired asset is assessed on its merits.

In assessing the need for collectively assessed impairment allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Branch makes assumption both to define the way the Branch models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Branch makes depends on how well the Branch can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collectively assessed impairment allowances. While this necessarily involves judgement, the Branch believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

All loans and receivables are reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and will be charged or credited to the profit and loss account. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

Where there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Branch has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

# Accounting policies (continued)

## *(g) Impairment of assets (continued)*

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individually assessed impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit and loss account. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Other assets

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that fixed assets or other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

*Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

# Accounting policies (continued)

***(g) Impairment of assets (continued)***

(iii) Other assets (continued)

*Recognition of impairment losses*

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

*Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

***(h) Operating leases***

When the Branch has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term.

# Accounting policies (continued)

## *(i) Repossession of assets*

In the recovery of impaired loans and advances, the Branch may take repossession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Branch's accounting policy set out in note (g), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the collateral assets, usually resulting in a partial write-off of the loans and advances against impairment allowances. Repossessed assets are reported under other assets if it is highly probable that their carrying amount will be recovered through a sale transaction rather than through continuing use and the assets are available for sale in its present condition. Related loans and advances are then written off.

Repossessed assets are recognised at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the profit and loss account.

## *(j) Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in reserve, in which case the relevant amount of tax are recognised in reserve.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

# Accounting policies (continued)

### *(k) Financial guarantees issued, provisions and contingent liabilities*

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Branch issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other accounts and provisions.

The deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (k)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Branch under the guarantee, and (ii) the amount of that claim on the Branch is expected to exceed the amount currently carried in other accounts and provisions in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Branch has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# Accounting policies (continued)

### *(l) Employee benefits*

Employee entitlements to salaries, annual bonuses, contributions to defined contribution retirement plans and the cost to the Branch of non-monetary benefits are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

Contributions to the Mandatory Provident Fund of The Bank of East Asia, Limited, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance in respect of Hong Kong staff members, are charged to the profit and loss account when incurred.

### *(m) Related parties*

(a) A person, or a close member of that person's family, is related to the Branch if that person:

- (i) has control or joint control over the Branch;
- (ii) has significant influence over the Branch; or
- (iii) is a member of the key management personnel of the Branch or the Branch's Head Office.

(b) An entity is related to the Branch if any of the following conditions applies:

- (i) The entity and the Branch are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Branch or an entity related to the Branch.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

# Accounting policies (continued)

***(n) AMCM Monetary Bills***

AMCM Monetary Bills are stated at their face value less any unamortised discount in the balance sheet. Discounts are amortised to the profit and loss account on a straight-line basis.

***(o) Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

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

# Significant related party transactions

*(Expressed in Macau Patacas)*

### *(a) Amounts due from/(to) Head office and other related parties*

During the year, the Branch entered into transactions with its head office and certain other branches and subsidiaries of The Bank of East Asia, Limited in the ordinary course of its banking business. In the opinion of management, the transactions were conducted on an arm's length basis. Included in the following balance sheet captions are balances with head office and other branches and subsidiaries:

| | *As at 31st December, 2013* MOP |
|---|---|
| Cash and balances with banks and other financial institutions | 102,715,907 |
| Placements with banks and other financial institutions | 1,454,323,113 |
| Other accounts | 3,654,288 |
| | 1,560,693,308 |
| | |
| Establishment fund | (221,251,000) |
| Deposits and balances of banks and other financial institutions | (4,201,402,550) |
| Other accounts and provisions | (14,873,149) |
| | (4,437,526,699) |

The establishment fund of the Branch is interest-free and with no fixed repayment terms.

### *(b) Related party transactions*

Operating profits for the year are stated after taking into account significant transactions with Head Office and other branches and subsidiaries as follows:

| | *Year Ended 31st December, 2013* MOP |
|---|---|
| Interest income | 14,212,762 |
| Interest expense | (31,642,153) |
| | (17,429,391) |

# Credit risk management

*(Expressed in Macau Patacas)*

Credit risk arises from the possibility that a customer or counterparty in a transaction may default.

The Branch has established policies and procedures to identify, measure, monitor and control credit risk. In this connection, guidelines for management of credit risk have been laid down in the Credit Manual. These guidelines stipulate delegated lending authorities, credit extension criteria, credit monitoring process, 20-grade loan classification system, credit recovery and provisioning policy. They are reviewed and enhanced on an on-going basis to cater for the market change, statutory requirement and best practice risk management processes.

The Branch has laid down policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. The Branch has different internal rating systems that are applied to each counterparty. The Branch monitors its concentration risk by adopting appropriate risk control measures, such as setting limits on exposures to different industries and loan portfolios.

The Branch also has a review process to ensure that the level of review and approval is proper and will depend on the size of the facility and rating of the credit. The Branch undertakes on-going credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The overall portfolio risk as well as individual impaired loans and potential impaired loans are monitored on a regular basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance and adjustment of mark to market value if applicable.

The Branch’s credit risk is primarily attributable to loans and advances to customers.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year-end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Loans and advances are classified as impaired when the principal or interest is overdue for more than 90 days or if objective evidence of impairment exists.

# Credit risk management (continued)

*(Expressed in Macau Patacas)*

In accordance with Aviso no. 18/93-AMCM, credit institutions are required to maintain a minimum level of specific provision for a bad and doubtful loan at a percentage depending on the overdue period of the loan, and a general provision at a minimum of 1% of the total balance of performing loans and certain credit-related off-balance sheet exposures.

### *(a) Geographical distribution of credit risk exposures*

The geographical distribution is based on the countries where the counterparties were operated or located after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

# Credit risk management (continued)

*(Expressed in Macau Patacas)*

## (a) *Geographical distribution of credit risk exposures (continued)*

Exposures to individual countries or jurisdiction, groups of countries or regions within countries amounting to 10% or more of the relevant major types of credit exposures at balance sheet date are shown as follows:

| Region | As at 31st December, 2013<br>Gross loans and commitments<br>MOP | Debt securities<br>MOP | Financial derivatives<br>MOP |
|---|---|---|---|
| **Macau SAR** | 4,697,524,515 | 124,999,208 | 760,765,788 |
| in which: | | | |
| – banks | - | - | 760,558,305 |
| – governments | - | 124,999,208 | - |
| – public sectors entities | 163,750,000 | - | - |
| – others | 4,533,774,515 | - | 207,483 |
| **Hong Kong SAR** | 2,052,434,109 | - | 207,483 |
| in which: | | | |
| – banks | 7,105,000 | - | 207,483 |
| – governments | - | - | - |
| – public sectors entities | - | - | - |
| – others | 2,045,329,109 | - | - |
| **People's Republic of China** | 2,051,616,321 | - | - |
| in which: | | | |
| – banks | 1,798,329,160 | - | - |
| – governments | - | - | - |
| – public sectors entities | - | - | - |
| – others | 253,287,161 | - | - |
| **Others** | 19,857,994 | - | - |
| in which: | | | |
| – banks | - | - | - |
| – governments | - | - | - |
| – public sectors entities | - | - | - |
| – others | 19,857,994 | - | - |
| | 8,821,432,939 | 124,999,208 | 760,973,271 |

# Credit risk management (continued)

*(Expressed in Macau Patacas)*

### *(a) Geographical distribution of credit risk exposures (continued)*

Geographic region with higher than or equal to 10% of the total loans and advances to customers at balance sheet date are shown as follows:

| | *As at 31st December, 2013* | |
|---|---|---|
| | *Gross loans and advances* MOP | *Past due or impaired* MOP |
| Macau | 3,716,789,277 | 21,686,722 |
| Hong Kong | 1,482,848,247 | 8,019,755 |
| People's Republic of China | 1,524,215,664 | - |
| Others | 19,857,994 | - |
| | 6,743,711,182 | 29,706,477 |

### *(b) Industry distribution on loans and advances to customers*

The following table shows the industry distribution of the loans and advances at the balance sheet date:

| | *As at 31st December, 2013* | |
|---|---|---|
| | *Gross balance* MOP | *Past due or impaired* MOP |
| Manufacturing | 46,682,846 | - |
| Electricity, gas and water | 163,750,000 | - |
| Construction and public works | 754,682,240 | - |
| Trade (wholesale and retail) | 1,473,342,865 | - |
| Restaurants, hotels and related activities | 1,557,356,003 | - |
| Individuals for house purchases | 1,806,085,965 | 29,342,545 |
| Individuals for other purchases | 366,793,747 | 363,932 |
| Others | 575,017,516 | - |
| | 6,743,711,182 | 29,706,477 |

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. As at 31st December, 2013, no specific provision is made against the loans and advances.

# Credit risk management (continued)

*(Expressed in Macau Patacas)*

## (c) *Analysis on assets and liabilities by remaining maturity*

| | As at 31st December, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *On demand* MOP | *Within 1 month* MOP | *3 months or less but over 1 month* MOP | *1 year or less but over 3 months* MOP | *3 years or less but over 1 year* MOP | *Over 3 years* MOP | *Total* MOP |
| **Assets** | | | | | | | |
| Cash in hand | 127,893,407 | - | - | - | - | - | 127,893,407 |
| Cash and balances with banks and other financial institutions | 749,522,618 | - | - | - | - | - | 749,522,618 |
| Placements with banks and other financial institutions | 401,936,960 | 706,360,861 | 576,475,594 | 8,329,698 | - | - | 1,693,103,113 |
| Securities issued by AMCM | 89,999,834 | 34,999,374 | - | - | - | - | 124,999,208 |
| Loans and advances to customers | 361,486,289 | 298,273,123 | 237,873,706 | 1,521,122,289 | 2,351,011,085 | 1,963,829,123 | 6,733,595,615 |
| | 1,730,839,108 | 1,039,633,358 | 814,349,300 | 1,529,451,987 | 2,351,011,085 | 1,963,829,123 | 9,429,113,961 |
| **Liabilities** | | | | | | | |
| Deposits and balances of banks and other financial institutions | - | 262,766,000 | - | - | - | - | 262,766,000 |
| Deposits from Head Office and other branches | 3,969,350 | 612,552,200 | - | 2,208,801,000 | 1,376,080,000 | - | 4,201,402,550 |
| Deposits from non-bank customers | 1,854,848,222 | 1,559,397,998 | 442,774,521 | 1,232,309,347 | - | - | 5,089,330,088 |
| | 1,858,817,572 | 2,434,716,198 | 442,774,521 | 3,441,110,347 | 1,376,080,000 | - | 9,553,498,638 |

# Credit risk management (continued)

*(Expressed in Macau Patacas)*

***(d) Analysis on past due assets***

As at 31st December, 2013, there were no assets that have been past due for more than 3 months.

# Market risk management

*(Expressed in Macau Patacas)*

Market risk arises on all market risk sensitive financial instruments, including debt securities, foreign exchange contracts and derivative instruments, as well as from balance sheet or structural positions. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Branch's exposure to the volatility inherent in the financial instruments.

Management of the Branch's market risk is governed by the market risk management policies which are approved by the Board of Directors or the Asset and Liability Management Committee of the Group. The Board of Directors of the Group has delegated the responsibility for day-to-day market risk management to the Asset and Liability Management Committee. The Asset and Liability Management Committee reports to the Board of Directors via the Risk Management Committee. The Asset and Liability Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk. The Asset and Liability Management Committee deals with all market risk and liquidity risk related issues of the Group. It is also responsible for conducting a regular review of interest rates trend and deciding the corresponding future business strategy.

Local Asset and Liability Management Committee at branch level is also set up, not only to manage market, interest rate, liquidity and strategic risks of the Branch, but also to discuss any issues relating to the management of balance sheet. Local Asset and Liability Management Committee is required to report to the Asset and Liability Management Department of the Group after meeting on a weekly basis through China Division of Head Office.

# Interest rate risk management

*(Expressed in Macau Patacas)*

The Branch's interest rate positions arise from treasury and commercial banking activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to positions from non-interest bearing liabilities including amounts due to Head Office and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is daily managed by the Treasury Department of the Branch within the limit approved by the Head Office.

The Branch manages the interest rate risk on the banking book primarily by focusing on the repricing mismatches. Gap analysis provides a static view of the maturity and repricing characteristics of the Branch's financial positions. Repricing gap limits are set to control the Branch's interest rate risk.

Stress tests on the Branch's interest rate risk are conducted regularly by Treasury Department. The results are reviewed by the local Asset and Liability Management Committee. If necessary, remedial actions will be taken.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and is performed on monthly basis. Sensitivity limits are set to control the Branch's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee, Risk Management Committee and the Board of Directors on a regular basis.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

(i) there is a parallel shift in the yield curve and in interest rates;

(ii) there are no other changes to the portfolio;

(iii) no loan prepayment is assumed; and

(iv) deposits without fixed maturity dates are assumed to be fully retained and repriced on the next day.

Actual changes in the Branch's net interest income and the economic value resulting from the increases in interest rates may differ from the results of this sensitivity analysis.

# Operational risk management

*(Expressed in Macau Patacas)*

Operational risk arises from the Branch's daily operations and fiduciary activities. It is managed through the Branch's operating and management procedures. The primary focus of these processes is to identify, assess and monitor these risks and to fulfil regulatory requirements.

The Branch has implemented a centralised operational risk management framework. All departments are required to manage operational risk within the operational risk management policies which are approved by the Board of Directors or the Operational Risk Management Committee of the Group. Local Asset and Liability Management Committee is responsible for monitoring activities relating to operational risk.

Operational risk management tools adopted include operational risk incidents reporting, control self-assessment, key risk indicators, operation manuals, insurance policies, business continuity planning, etc.

# Foreign exchange risk management

*(Expressed in Macau Patacas)*

The Branch's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign currency positions are managed within limits approved by the Head Office.

The Branch has no significant foreign currency risk because its business is principally conducted in Macau and most of the transactions are denominated in the Company's functional currency, Hong Kong dollar and United States dollar. Since both the MOP and Hong Kong dollar is pegged to the United States dollar, the Branch's exposure to foreign currency risk in respect of the bank balances denominated in United States dollars is considered to be minimal.

The Branch has an established control framework with respect to the measurement of foreign currency risk. This framework includes the submission of foreign currency position to Risk Management Department on a daily basis.

The following table indicates the net long/(short) position of currencies other than MOP:

| | *As at 31st December, 2013* MOP |
|---|---|
| HKD | 30,001,750 |
| RMB | (2,101,568) |
| USD | 13,674,165 |
| Other currencies | (428,954) |

# Foreign exchange risk management (continued)

*(Expressed in Macau Patacas)*

Analysis on foreign currencies with net position constitute not less than 10% of the total net position in all currencies:

| | *Transaction currencies As at 31th December, 2013* | | |
|---|---|---|---|
| | HKD | RMB | USD |
| **Assets** | | | |
| Cash and balances with banks and other financial institutions | 158,770,545 | 124,849,600 | 417,749,828 |
| Placements with banks and other financial institutions | 82,400,000 | 505,589,112 | 822,727,338 |
| Trade bills | - | 804,895,895 | 8,950,994 |
| Loans and advances to customers and other accounts | 5,536,048,156 | 3,275,378 | 912,996,572 |
| Spot assets | 5,777,218,701 | 1,438,609,985 | 2,162,424,732 |
| **Liabilities** | | | |
| Deposits and balances of banks and other financial institutions | (3,578,576,462) | (474,264,000) | (411,328,088) |
| Deposits from customers | (2,912,957,294) | (955,827,711) | (543,872,317) |
| Other accounts and provisions | (14,429,195) | (10,619,842) | (432,991,857) |
| Spot liabilities | (6,505,962,951) | (1,440,711,553) | (1,388,192,262) |
| Forward purchases | 758,746,000 | - | - |
| Forward sales | - | - | (760,558,305) |
| Net long/(short) position | 30,001,750 | (2,101,568) | 13,674,165 |

# Liquidity risk management

*(Expressed in Macau Patacas)*

The purpose of liquidity management is to ensure sufficient cash flows are available to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Branch's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

The Branch manages liquidity risk by holding sufficient liquid assets (e.g. cash and placements with banks and other financial institutions) of appropriate quality to ensure that short term funding requirements are covered within prudent limits.

The management of the Branch's liquidity risk is governed by the liquidity risk management policies and principle as approved by the Board of Directors or the Asset and Liability Management Committee of the Group. The local Asset and Liability Management Committee is delegated by the Asset and Liability Management Committee of the Group to oversee the Branch's liquidity risk management. The Group's Asset and Liability Management Committee sets the strategy, policy and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meeting is held by local Asset and Liability Management Committee to review the compliance status of the monitoring matrix established and the needs of change in strategy and policy.

# Liquidity risk management (continued)

*(Expressed in Macau Patacas)*

The following table summarized the key quantitative indicators for liquidity risk for the year ended 31st December, 2013:

| | | |
|---|---|---|
| (a) | The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held | 101,962,734 |
| (b) | The arithmetic mean of the average weekly amount of cash in hand | 258,749,458 |
| (c) | The arithmetic mean of the specified liquid assets at the end of each month | 1,825,720,417 |
| (d) | The average ratio of specified liquid asset to total basic liabilities at the end of month | 38.13% |
| (e) | The arithmetic mean of its one-month liquidity ratio in the last week of each month | 112.96% |
| (f) | The arithmetic mean of its three-month liquidity ratio in the last week of each month | 75.23% |

The above ratios and figures calculations are computed based on the data extracted from the weekly and monthly returns submitted to AMCM.

# Other information

*(Expressed in Macau Patacas)*

## *(a) Capital commitments*

Capital commitments outstanding at 31 December not provided for in the financial statements were as follows:

| | *As at 31st December, 2013* MOP |
|---|---|
| Authorised and contracted for | 650,701 |

## *(b) Operating lease commitments*

At 31st December, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | *As at 31st December, 2013* MOP |
|---|---|
| Within 1 year | 5,455,150 |
| After 1 year but within 5 year | 3,162,070 |
| | 8,617,220 |

The Branch leases a number of properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew. None of the leases includes contingent rentals.

# Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries

*(Expressed in Hong Kong dollars)*

The Branch is one of the branches of The Bank of East Asia, Limited ("BEA") and therefore, it is not required to prepare consolidated accounts. Unless otherwise stated, all information disclosed below is extracted from the corresponding information in the most recently available annual audited consolidated financial statements of BEA of which the Branch is a member.

The audited consolidated financial statements can be accessed through various channels, including its website (http://www.hkbea.com). For more comprehensive understanding of the financial position and results of operations of BEA, the information disclosed below should be read in conjunction with the audited consolidated financial statements.

### *(a) Consolidated capital adequacy ratio*

| | *As at 31st December, 2013* |
|---|---|
| | *%* |
| Common Equity Tier 1 capital ratio | 11.4 |
| Tier 1 capital ratio | 12.1 |
| Total capital ratio | 15.9 |

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules ("the Capital Rules") issued by the Hong Kong Monetary Authority. The ratios as of 31 December, 2013 were compiled in accordance with the amended Capital Rules effective from 1 January, 2013 for the implementation of the "Basel III" capital accord. In accordance with the Capital Rules, the Bank has adopted the foundation internal ratings-based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its Tier 1 capital and Tier 2 capital subject to the thresholds and transitional agreements as determined in accordance with Part 3 and Schedule 4H of the Capital Rules respectively.

# Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries (continued)

*(Expressed in Hong Kong dollars)*

## *(b) Capital and reserves*

| | *As at 31st December, 2013* HKD million |
|---|---|
| Total capital | 5,724 |
| Total reserves | 57,958 |

## *(c) Consolidated assets, liabilities and profits position*

| | *As at 31st December, 2013* HKD million |
|---|---|
| Total assets | 753,954 |
| Total liabilities | 685,720 |
| Total gross loans and advances to customers | 405,357 |
| Deposits and balances of banks and other financial institutions | 28,923 |
| Deposits from customers | 534,971 |
| Profit before taxation | 8,486 |

# Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries (continued)

## *(d) List of shareholders with qualifying holdings*

As at 31st December, 2013, the long positions in ordinary shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO") were as follows:

| *Name* | *Capacity and nature* | *No. of shares* | *% of issued share capital* |
|---|---|---|---|
| CaixaBank, S.A. | Beneficial owner | 364,746,530[1] | 16.38 |
| Caja de Ahorros y Pensiones de Barcelona | Interest of corporation | 364,746,530[1] | 16.38 |
| Guoco Management Company Limited | Beneficial owner | 339,766,793[2,3] | 15.02[4] |
| Guoco Group Limited | Interest of corporation | 339,766,793[2] | 15.02 |
| GuoLine Overseas Limited | Interest of corporation | 339,766,793[2] | 15.02[4] |
| GuoLine Capital Assets Limited | Interest of corporation | 339,766,793[2] | 15.02[4] |
| Hong Leong Company (Malaysia) Berhad | Interest of corporation | 339,766,793[2,3] | 15.02 |
| HL Holdings Sdn Bhd | Interest of corporation | 339,766,793[2] | 15.02 |
| QUEK Leng Chan | Interest of corporation | 339,766,793[2] | 15.02 |
| Hong Leong Investment Holdings Pte. Ltd. | Interest of corporation | 339,766,793[3] | 15.02 |
| Davos Investment Holdings Private Limited | Interest of corporation | 339,766,793[3] | 15.02 |
| KWEK Leng Kee | Interest of corporation | 339,766,793[3] | 15.02 |
| Sumitomo Mitsui Banking Corporation | Beneficial owner | 211,553,938[5] | 9.50 |
| Sumitomo Mitsui Financial Group, Inc. | Interest of corporation | 211,553,938[5] | 9.50 |

*Notes:*

*1 As at 31st December, 2013, Caja de Ahorros y Pensiones de Barcelona held a controlling interest in CaixaBank, S.A. which directly held the above 364,746,530 shares of the Bank. Caja de Ahorros y Pensiones de Barcelona was deemed to be interested in the above 364,746,530 shares of the Bank.*

*The Bank had been notified that the shareholdings of the above two corporations had been increased such that, as at 31st December, 2013, they stood at 378,013,906 shares (equivalent to approximately 16.51% of the issued share capital of the Bank as at 31st December, 2013). Such increases in shareholdings were not required to be disclosed under Part XV of the SFO.*

[2] *The references to 339,766,793 shares of the Bank in Notes 2 and 3 relate to the same block of shares. Guoco Management Company Limited was the beneficial owner of 339,766,793 shares (equivalent to approximately 15.02% of the issued share capital of the Bank at the time of disclosure pursuant to Part XV of the SFO and approximately 14.84% of the issued share capital of the Bank as at 31st December, 2013). Hong Leong Company (Malaysia) Berhad was deemed to be interested in the 339,766,793 shares held by Guoco Management Company Limited by virtue of its 100% interest in GuoLine Capital Assets Limited which owned a 100% interest in GuoLine Overseas Limited. GuoLine Overseas Limited held a 74.10% interest in Guoco Group Limited which in turn owned a 100% interest in Guoco Management Company Limited. GuoLine Capital Assets Limited, GuoLine Overseas Limited and Guoco Group Limited were all deemed to be interested in the 339,766,793 shares held by Guoco Management Company Limited.*

*Quek Leng Chan was deemed to be interested in the 339,766,793 shares held by Guoco Management Company Limited by virtue of his 100% interest in HL Holdings Sdn Bhd ("HLH"). Hong Leong Company (Malaysia) Berhad was 49.27% owned by Quek Leng Chan as to 2.424% under his personal name, 46.534% via HLH which was wholly-owned by him and 0.311% via Newton (L) Limited.*

[3] *The references to 339,766,793 shares of the Bank in Notes 2 and 3 relate to the same block of shares. Hong Leong Company (Malaysia) Berhad was 34.69% held by Hong Leong Investment Holdings Pte. Ltd. which was in turn 33.59% held by Davos Investment Holdings Private Limited. Hong Leong Investment Holdings Pte. Ltd. and Davos Investment Holdings Private Limited were deemed to be interested in the 339,766,793 shares (equivalent to approximately 15.02% of the issued share capital of the Bank at the time of disclosure pursuant to Part XV of the SFO and approximately 14.84% of the issued share capital of the Bank as at 31st December, 2013) held by Guoco Management Company Limited by virtue of their interests in Hong Leong Company (Malaysia) Berhad.*

*KWEK Leng Kee was deemed to be interested in the 339,766,793 shares held by Guoco Management Company Limited by virtue of his 41.92% interest in Davos Investment Holdings Private Limited.*

[4] *GuoLine Overseas Limited and GuoLine Capital Assets Limited are wholly-owned subsidiaries of Hong Leong Company (Malaysia) Berhad and Guoco Management Company Limited is a wholly-owned subsidiary of Guoco Group Limited. With the filing of the substantial shareholder notices by Hong Leong Company (Malaysia) Berhad and Guoco Group Limited, GuoLine Overseas Limited, GuoLine Capital Assets Limited and Guoco Management Company Limited do not need to file their respective substantial shareholder notices under the "wholly-owned group exemption" as provided in the SFO.*

[5] *Sumitomo Mitsui Financial Group, Inc. owned a 100% interest in Sumitomo Mitsui Banking Corporation which directly held the above 211,553,938 shares of the Bank. Sumitomo Mitsui Financial Group, Inc. was deemed to be interested in the above 211,553,938 shares of the Bank.*

*The Bank had been notified that the shareholdings of the above two corporations had been increased such that, as at 31st December, 2013, they stood at 219,249,051 shares (equivalent to approximately 9.58% of the issued share capital of the Bank as at 31st December, 2013). Such increases in shareholdings were not required to be disclosed under Part XV of the SFO.*

# Other information in relation to positions of The Bank of East Asia, Limited and its subsidiaries (continued)

***(e) Board of Director***

The Board of Directors of the Bank comprise:

**Executive Director**

Dr. the Hon. Sir David LI Kwok-po *(Chairman & Chief Executive)*

**Non-executive Directors**

Professor Arthur LI Kwok-cheung (*Deputy Chairman*)
Mr. Aubrey LI Kwok-sing
Mr. Richard LI Tzar-kai
Mr. Eric LI Fook-chuen
Mr. Stephen Charles LI Kwok-sze
Dr. Isidro FAINÉ CASAS
Mr. Peter LEE Ka-kit

**Independent Non-executive Directors**

Dr. Allan WONG Chi-yun *(Deputy Chairman)*
Mr. WONG Chung-hin
Mr. Winston LO Yau-lai
Tan Sri Dr. KHOO Kay-peng
Dr. Thomas KWOK Ping-kwong
Mr. Kenneth LO Chin-ming
Mr. William DOO Wai-hoi
Mr. KUOK Khoon-ean
Mr. Valiant CHEUNG Kin-piu