



Financial Report

BANCO ESPÍRITO SANTO DO ORIENTE, S.A.

Balance sheet as at 31 December 2012

(Expressed in Macau Patacas)

ASSETS	GROSS ASSETS	PROVISIONS DEPRECIATION & AMORTIZATION	NET ASSETS
CASH	280,317.81		280,317.81
DEPOSITS WITH AMCM	83,380,015.94		83,380,015.94
VALUES FOR COLLECTION	8,015,700.00		8,015,700.00
DEPOSITS ON DEMAND WITH LOCAL CREDIT INSTITUTIONS	1,275,003.41		1,275,003.41
DEPOSITS ON DEMAND WITH FOREIGN CREDIT INSTITUTIONS	22,321,374.00		22,321,374.00
OTHER VALUES	95,218.89		95,218.89
LOANS AND ADVANCES	708,275,360.06		708,275,360.06
PLACEMENTS WITH LOCAL CREDIT INSTITUTIONS	-		-
DEPOSITS AT CALL AND AT TERM ABROAD	3,788,408,000.00		3,788,408,000.00
SHARES, BONDS AND OTHER SECURITIES	67,180,125.99	(49,589.00)	67,130,536.99
DEBTORS	976,785.90		976,785.90
OTHER APPLICATIONS	-		-
INVESTMENTS	190,000.00		190,000.00
EQUIPMENT	3,165,506.64	(2,976,917.72)	188,588.92
DEFERRED EXPENDITURES	152,255.57	(129,974.00)	22,281.57
INSTALLATION EXPENDITURES	4,316,303.50	(1,195,198.00)	3,121,105.50
CONSTRUCTIONS IN PROGRESS	-		-
INTERNAL ACCOUNTS	35,662,599.48		35,662,599.48
TOTAL	4,723,694,567.19	(4,351,678.72)	4,719,342,888.47

Balance sheet as at 31 December 2012 (continued)

(Expressed in Macau Patacas)

LIABILITIES	SUB-TOTALS	TOTAL
DEPOSITS ON DEMAND	48,874,211.11	
FIXED TERM DEPOSITS	1,786,205,411.51	
PUBLIC SECTOR DEPOSITS	2,393,911,502.85	4,228,991,125.47
BORROWING FROM LOCAL CREDIT INSTITUTIONS	5,150,000.00	
CHEQUES & PAYMENT ORDERS	8,016,649.10	
CREDITORS	954,465.94	
OTHER LIABILITIES	167,274.13	14,288,389.17
INTERNAL ACCOUNTS	38,285,677.59	
PROVISIONS FOR OTHER RISKS AND CHARGES	9,725,634.00	
SHARE CAPITAL	200,000,000.00	
LEGAL RESERVES	38,471,473.03	
OTHER RESERVES	112,873.04	286,595,657.66
RESULTS CARRIED FORWARD	147,076,357.35	
PROFIT FOR THE YEAR ENDED	42,391,358.82	189,467,716.17
		4,719,342,888.47

Balance sheet as at 31 December 2012 (continued)

(Expressed in Macau Patacas)

MEMORANDUM ITEMS	AMOUNT
VALUES HELD IN DEPOSIT	4,214.98
VALUES HELD FOR COLLECTION	-
VALUES HELD AS GUARANTEE	1,312,457,741.21
BANK GUARANTEES	161,202,090.72
LETTER OF CREDIT ISSUED	100,644,914.32
ACCEPTANCES OUTSTANDING	107,828,336.10
OTHER MEMORANDUM ITEMS	3,218,728,558.54

BANCO ESPÍRITO SANTO DO ORIENTE, S.A.
Operating Profit and Loss
For the year end 31 December 2012
(Expressed in Macau Patacas)

DEBIT	AMOUNT	CREDIT	AMOUNT
INTEREST EXPENSE	83,135,766.82	INTEREST INCOME	137,481,280.12
STAFF COSTS:		BANKING SERVICES INCOME	204,564.87
MANAGEMENT REMUNERATION	5,961,580.02	OTHER BANKING SERVICES INCOME	19,680,999.35
EMPLOYEES REMUNERATION	7,131,429.46	SECURITIES & FINANCIAL INVESTMENT INCOME	187,088.50
SOCIAL EXPENSES	618,646.60	OTHER BANKING INCOME	350,226.25
OTHER STAFF COSTS	540,092.00		
THIRD PARTY SUPPLIES	280,176.69		
THIRD PARTY SERVICES	9,105,773.51		
OTHER BANKING EXPENSES	4,023,979.11		
INDUSTRIAL AND OTHER TAXES	143,370.04		
OTHER EXPENSES	125,873.89		
DEPRECIATION AND AMORTIZATION	867,711.13		
PROVISIONS FOR OTHER RISKS AND CHARGES	-		
OPERATING PROFIT FOR THE YEAR ENDED	45,969,759.82		
TOTAL	157,904,159.09	TOTAL	157,904,159.09

BANCO ESPÍRITO SANTO DO ORIENTE, S.A.
Net Profit and Loss
For the year end 31 December 2012
(Expressed in Macau Patacas)

DEBIT	AMOUNT	CREDIT	AMOUNT
OPERATING LOSS FOR THE YEAR ENDED	-	OPERATING PROFIT FOR THE YEAR ENDED	45,969,759.82
PRIOR YEAR LOSS	-	PRIOR YEAR GAIN	2,244,920.00
EXCEPTIONAL LOSS	-	EXCEPTIONAL PROFIT	-
COMPLEMENTARY INCOME (CORPORATE) TAX	5,823,321.00	PROVISIONS UTILIZED	-
NET PROFIT FOR THE YEAR ENDED	42,391,358.82	NET LOSS FOR THE YEAR ENDED	-
TOTAL	48,214,679.82	TOTAL	48,214,679.82

The Chief Executive Officer,
José Morgado

The Head of Accounting,
Francisco F. Frederico

Macau, 12 March 2013

Unaudited information

(Expressed in Macau Patacas)

2 The Cash flow statement

Operating activities

Profit before taxation	48,214,680
Adjustments for:	
Depreciation and amortization	867,711
Amortization of premium on securities investments	(255,945)
Recovery of provisions	(2,244,920)
Gain on sale of shares, bonds and other securities	(406,147)
Foreign exchange gain	(58,393)
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	46,116,986

Decrease/(increase) in operating assets

Change in loans and advances	301,621,533
Change in placements with foreign credit institutions with original maturity over three months	(1,036,427,048)
Change in other assets	(22,865,576)

(Decrease)/increase in operating liabilities

Change in deposits on demand	(38,920,304)
Change in fixed term deposits	2,386,908,915
Change in borrowings from local credit institutions	(242,671,600)
Change in other liabilities	(47,479,876)
Change in other payables	12,376,473
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Cash generated from operating activities 1,358,659,503

Taxation paid

 (4,528,380)

Net cash generated from operating activities

 1,354,131,123

Unaudited information (continued)

(Expressed in Macau Patacas)

2 The Cash flow statement (continued)

Investing activities

Proceeds from sale or redemption of shares, bonds, and other securities	910,753
Purchase of fixed assets and deferred expenses	<u>(71,674)</u>
Net cash generated from investing activities	<u>839,079</u>
Net increase in cash and cash equivalents	1,354,970,202
Cash and cash equivalents at 1 January	<u>1,011,790,208</u>
Cash and cash equivalents at 31 December	<u>2,366,760,410</u>

Unaudited information (continued)

(Expressed in Macau Patacas)

3 Off-balance sheet exposures other than derivative transactions

At 31 December 2012, the Bank had the following contingent liabilities and outstanding commitments:

(a) *Off balance sheet items outstanding (contract amount) at the balance sheet date (in MOP):*

Bank guarantees issued	161,202,091
Values held in deposit	4,215
Values held as guarantees	1,312,457,741
Letter of Credit	82,553,595
Undrawn facilities	366,011,329
Risk participation	18,091,319
Acceptance outstanding	107,828,336

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) *Operating lease commitments*

At 31 December 2012, the Bank had future aggregate minimum lease payments under operating leases as follows (in MOP):

Up to one year	1,166,143
From one year to five years	27,810
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	1,193,953
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Unaudited information (continued)

(Expressed in Macau Patacas)

4 Derivatives

As at 31 December 2012, the notional amount of interest-bearing off balance sheet financial instruments is as follows:

	<i>Notional amount MOP In '000'</i>	<i>Credit risk weighted amount MOP In '000'</i>
Foreign currency swaps	<u>2,852,717</u>	<u>856</u>

The notional amounts of these contracts indicate the volume of transactions outstanding and do not represent amounts at risk.

5 Accounting policies

(a) *Income recognition*

Interest income is recognized in the income statement on an accrual basis, except in the case of doubtful loans and advances where interest is credited to a suspense account that is netted off in the balance sheet against the relevant balances.

Fee and commission income is recognized in the period it is earned. Fees that are charged to cover the costs of a continuing service to, or risk borne for the customer, or are interest in nature, are recognized on a time proportion basis over the relevant period.

(b) *Shares, bonds and other securities*

Ordinary shares are revalued at the lower of acquisition cost or fair market value.

Bonds and other securities have fixed or determinable payments and fixed maturity and the Bank have the positive intention and ability to hold them to maturity. Bond and other securities are included in the balance sheet at the acquisition cost adjusted for the amortization of premium or discount arising on acquisition. Quoted securities are revalued at the quoted price if lower than the acquisition cost.

Unaudited information (continued)

(Expressed in Macau Patacas)

5 Accounting policies (continued)

(c) *Financial investments*

Investment in subsidiary

Subsidiary is a company controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities. Investment in subsidiary are carried at cost less any provision for permanent diminution in value. The result of the subsidiary is accounted for to the extent of dividends received and receivable.

Investment in associate

An associate is a company in which the Bank holds, directly or indirectly, less than 50% but 20% or more of the voting power of the Bank. While the Bank does not exercise control, the investment is of a permanent nature and is held as a result of the Bank's activities being similar or complementary to those of the Bank. Investment in associate is carried at cost less provision. The result of associate is accounted for the extent of dividends received and receivable.

(d) *Loans and advances to customers*

- (i) Loans and advances to customers are subject to general provisions and specific provisions for bad and doubtful debts.
- (ii) All advances on which principal or interest have been overdue for more than three months are classified as non-performing in accordance with the requirements of the AMCM.

Specific provisions are made in accordance with the requirements set out under Notice No. 18/93 issued by AMCM 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 recognized 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 an advance that has been written off will be recognized as income in profit or loss.

Unaudited information (continued)

(Expressed in Macau Patacas)

5 Accounting policies (continued)

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

- (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 offset against the principal of outstanding loans and advances. Only when the principal of loans and advances is fully repaid can the amount receive in excess be recognized as interest income.
- (iv) In the recovery of non-performing loans, the Bank may take repossession of collateral assets through court proceedings or by the borrowers' voluntary delivery of possession. In order to achieve an orderly realization, 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 derecognized 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) *Equipment and other fixed assets*

Equipment and other fixed assets are stated at cost less depreciation. Depreciation is calculated to write off the cost of the fixed assets on a straight-line basis over their estimated useful lives as follows:

- Furniture, fixture and equipment	5 to 10 years
- Computer equipment	4 years
- Motor vehicles	5 years
- Leasehold improvements	6 years

(f) *Deferred expenses*

Deferred expenses include installation expenditures on the Bank's leasehold properties and computer software acquired and are amortized over three years on a straight-line basis.

Unaudited information (continued)

(Expressed in Macau Patacas)

5 Accounting policies (continued)

(g) 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 are translated into Macau Patacas at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Macau Patacas using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(h) Operating leases

Where the Bank has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(i) Cash equivalents

Cash equivalents are 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.

(j) Off balance sheet financial derivatives used for asset and liability management purposes

The interest arising from the interest rate derivative instruments is recognized in the income statement as the interest income or expense has received or receivable or paid and payable during the period. The gain or loss arising from the settlement and on retranslation of foreign exchange derivative instruments is recognized in profit or loss in the period in which they arise. The financial derivative instruments are recorded off balance sheet.

Unaudited information (continued)

(Expressed in Macau Patacas)

5 Accounting policies (continued)

(k) *Income tax*

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

Deferred tax is provided using the balance sheet liability method, providing 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 realization or settlement of the carrying amount of assets and liabilities, using tax rate enacted or substantively enacted at the balance sheet date.

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

(l) *Related parties*

For the purposes of these financial information, related parties include:

- (a) Any person or any close family member of that person if that person:
 - (i) has control or joint control over the credit institution;
 - (ii) has significant influence over the credit institution;
 - (iii) holds a qualifying holding in the credit institution;
 - (iv) is a member of the board of directors or supervisory board of the credit institution or of a parent of the credit institution; or
 - (v) is a member of the key management personnel, other than a member of the board of directors or supervisory board as identified in sub-item (iv) above, of the credit institution or of a parent of the credit institution.

Unaudited information (continued)

(Expressed in Macau Patacas)

5 Accounting policies (continued)

(1) *Related parties (continued)*

- (b) Any entity if any of the following conditions applies:
- (i) That entity and the credit institution are members of the same group (e.g. parent, subsidiary and fellow subsidiary).
 - (ii) That entity holds a qualifying holding in the credit institution.
 - (iii) That entity is an associate or joint venture of the credit institution (or an associate or joint venture of a member of a group of which the credit institution is a member).
 - (iv) The credit institution is an associate or joint venture of that entity (or an associate or joint venture of a member of a group of which that entity is a member).
 - (v) That entity and the credit institution are both joint ventures of the same third party.
 - (vi) That entity is a joint venture of a third entity and the credit institution is an associate of that third entity.
 - (vii) The credit institution is a joint venture of a third entity and that entity is an associate of that third entity.
 - (viii) That entity is controlled or jointly controlled by a person identified in (a).
 - (ix) A person identified in (a)(i) has significant influence over that entity or is a member of the key management personnel of that entity (or of a parent of that entity).
 - (x) A person identified in (a)(iv) is a member of the key management personnel of that entity (or of a parent of that entity).

Unaudited information (continued)

(Expressed in Macau Patacas)

6 Related party transactions

Policy for lending to related parties

A number of transactions are entered into with related parties in the normal course of business. These include deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates.

The Bank's lending policy to related parties are as follows:

- (a) The Bank shall not incur an exposure to any person, individual or corporate, which holds, directly or indirectly, a qualifying holding in it, or to companies in which this person has direct or indirect control, which at any time in the aggregate exceeds 20% of its own funds;
- (b) The aggregate exposure of all holders of qualifying holdings and companies referred to in (a) may not exceed at any time, 40% of the Bank's own funds;
- (c) The operations referred to in (a) and (b) require approval from all the members of the Board of Directors and a favourable opinion from the Supervisory board, and the respective terms shall be notified to AMCM within ten (10) days counted from the date of the respective approval;
- (d) The Bank shall not incur any exposure in the following cases and above the following limits:
 - (i) against the security of its own shares;
 - (ii) to the members of the Board of Directors and Supervisory board, their spouses so long as they are not judicially separated or married under the regime of separate property, children, parents, step-children, step-parents, sons-in-law, daughters-in-law, parents-in-law or companies under their control or to which Board of Directors or Supervisory board they belong, to an aggregate amount exceeding 10% of own funds;
 - (iii) to each of the entities mentioned in ii, to an amount exceeding 1% of own funds; and,
 - (iv) to each employee, for an amount which exceeds his or her total net annual income.
- (e) The exposure referred to in above d (ii) and d (iv) may exceed the limits set therein when the credit is intended for home purchase by the respective beneficiary, collateralized by a real guarantee which has been evaluated by an independent value and registered in the name of the Bank.

Unaudited information (continued)

(Expressed in Macau Patacas)

6 Related party transactions (continued)

The volume of related party transactions, outstanding balances at the year-end and related income and expense for the year are as follows:

(a) *Transactions with key management personnel*

Key management personnel of the Bank

In addition to the transactions and balances disclosed elsewhere in these financial information, the Bank provided commercial banking services to key management personnel of the Bank. The commercial banking services 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.

(b) *Transactions with group companies*

During the year, the Bank 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 amount of related party transactions during the year is set out below (in MOP):

Interest income	98,551,859
Interest expense	13,619,187
Commission received from services	7,818,053
Commission paid for custody service and other services	76,841

Unaudited information (continued)

(Expressed in Macau Patacas)

6 Related party transactions (continued)

(b) Transactions with group companies (continued)

The outstanding amounts of related party transactions as at the end of the reporting period are set out below (in MOP):

Assets:

Placements with foreign credit institutions	3,708,568,000
Current Accounts	11,481
Sundry Debtors	399,916
Deposits on demand with foreign credit institutions	5,829,828
Loans and advances to customers (forfeiting)	98,687,722
Interest receivables	29,741,797

Liabilities:

Fixed term deposits	701,149,840
Fixed customers deposits	606,199
Deposits on demand	2,862,910
Interest payables	223,681
Deferred income (forfeiting)	1,525,023

Off-balance sheet items:

Guarantees taken	29,817,703
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Unaudited information (continued)

(Expressed in Macau Patacas)

7 Capital

(a) Share capital

Authorized, issued and fully paid (in MOP):

200,000 shares of MOP1,000 each	<u>200,000,000</u>
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(b) Capital management

The Bank's policy is to maintain a strong capital base to support the development of the business and to meet the AMCM's statutory capital requirement. In addition to meeting the requirements of AMCM, the Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns to shareholders. This is achieved by allocating capital to various business areas and business units on the basis of specific risk profiles and by a constant measurement and monitoring of the performance. Capital and its allocation are therefore extremely important for the strategy, since capital is the object of the return expected by investors on their investment in the Bank, and also because it is a resource that has to comply with regulatory provisions.

The Bank's approach for the calculation of regulatory capital and capital charges (credit risk, market risk and operational risk) are in accordance with the AMCM rule. The Bank has an internal capital assessment process to ensure sufficient capital is available to absorb both regulatory capital requirements and any additional material risks inherent in the Bank's present and future business activities. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Bank, to the extent that these do not conflict with the directors' fiduciary duties towards the Bank.

Capital is managed dynamically and the Bank prepares the financial plan, monitors capital ratios for regulatory purposes on a monthly basis and anticipates the appropriate steps required to achieve its goals. As the Bank is part of a larger group, the Bank's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

Unaudited information (continued)

(Expressed in Macau Patacas)

7 Capital (continued)

(b) Capital management (continued)

The Bank's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the Bank belongs.

(i) Own funds

The Bank's own fund as of 31 December 2012 amounted to MOP 437.78 million. The value of own funds is the sum of core capital and supplementary capital less the amounts subject to deductions (if there were any).

Component of own fund is as follows (in MOP):

Share capital	200,000,000
Legal reserve	38,471,473
Other reserve	112,873
Retained earnings	147,076,357
Profit for the year	42,391,359
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Total core capital	428,052,062
General provision/ Total supplementary capital	<hr/> 9,725,634
Total amount of own funds	<hr/> <hr/> 437,777,696

Unaudited information (continued)

(Expressed in Macau Patacas)

7 Capital (continued)

(b) Capital management (continued)

(i) Own funds (continued)

The Bank's core capital consists of the following:

- Paid-up share capital pertains to 200,000 equity shares of authorized, issued and fully paid shares. The Bank does not have any other capital instruments except for these equity shares as qualifying capital.
- Legal reserve is a non-distributable reserve set aside from profit each year in accordance with Financial System Act of Macau ("FSAM") which provides that an amount of not less than 20% of the profit after taxation be set aside each following year until the reserve reaches 50% of the Bank's issued share capital and thereafter 10% of the profit after taxation be set aside each year until the reserve is equal to the Bank's issued share capital.
- Other reserve pertains to the one-time transfer of retained profits in the prior year.
- Retained earnings are the accumulated undistributed profits, net of legal reserves set aside in accordance with FSAM. Profit for the year pertains to the income earned for the period.

The Bank's supplementary capital represents the statutory reserves on general provision calculated in accordance with AMCM rules (see Note 5 d (ii)).

(ii) Operational Risk Adjusted Solvency ratio

As of 31 December 2012, the Bank has maintained an Operational Risk Solvency Ratio of 24.63% against AMCM minimum regulatory requirement of 8%. The Operational Solvency Ratio is calculated with the Bank's own fund expressed as a percentage of the sum of its weight credit risk exposures, weighted market risk exposures and weighted operational risk exposures. The solvency ratio is calculated in accordance with Notice no. 002/2011-AMCM.

The BES Group's solvency ratio is 11.3%, calculated as the Group total Regulatory Capital over Risk Weighted Assets ("RWA"). BES Group's Core Tier ratio was 10.5% meeting the Bank of Portugal's minimum requirement of 10%. Under the European Banking Authority ("EBA") calculation method, the Core Tier I ratio is 9.9% meeting the EBA minimum requirement of 9%.

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management

Credit risk is the risk of financial loss to the Bank when the counterparty fails to meet the contractual obligations, and arises principally from the Bank's loans and advances to customers and investments in debt securities and liquid securities. The Bank has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis and in compliance with the Prudential Rules on Exposure of Credit Institutions under Chapter VII of the FSAM.

In respect of loans and advances to customers, individual credit evaluations are performed on all customers requiring credit. These evaluations focus on the customer's past history of making payments and current ability to pay, taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Bank obtains collateral from customers.

Loans and advances to customers on which principal or interest have been overdue are classified as past due in accordance with the requirement set-out under Notice no. 18/93-AMCM. Past due accounts are further classified into groups based on the number of days past due as follows:

- Group I - up to 3 months;
- Group II - over 3 months and less than or equal to 12 months;
- Group III - over 12 months and less than or equal to 18 months;
- Group IV - over 18 months.

Loans and advances to customers are subject to general provisions and specific provisions for bad and doubtful debts in accordance with Notice no. 18/93-AMCM as follows:

- a) At the end of each quarter, a minimum specific provision shall be set up for past due accounts, based on their respective balances net of the realizable value of any existing and duly formalized tangible collateral, under Group II, Group III and Group IV at 40%, 80% and 100%, respectively.
- b) 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.

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management (continued)

Changes in the provisions are recognized 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 have been previously written off will be recognized as income in profit or loss.

All lending activity and credit exposure originated by the Bank must comply with a consistent credit policy fitting into Banco Espírito Santo Group's ("GBES") culture.

BESOR credit organization structure is approved by the Board of Directors, which provides strategic guidance in terms of defining the credit risk management policy.

All credit approval authority within BESOR is delegated by the Board of Directors to the EC.

The EC and or the EC Members exercise decision-making within their delegated authority.

As of 31 December 2012, loans and advances to customers are outstanding for less than 3 months, thus, minimum specific provision is not warranted. A general provision was provided amounted to MOP 9.7 million, which meets the minimum reserve requirement by AMCM.

Investment in debt securities and liquid securities are quoted in a recognized stock exchange and with counterparties that have high credit ratings. Furthermore, transactions involving derivative financial instruments are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations, thus, no impairment loss is recognized as of 31 December 2012.

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management (continued)

(i) Geographical analysis of loans and advances to customers

<i>Region</i>	<i>Gross loans and advances to customers MOP</i>	<i>Overdue loans and advances (less than 3 months) MOP</i>
Macau SAR	408,059,386	1,160,835
Of which:		
– Banks	-	-
– Government/Public sectors	-	-
– Others	408,059,386	1,160,835
Portugal	99,160,541	-
Of which:		
– Banks	99,160,541	-
– Government/Public sectors	-	-
– Others	-	-
France	95,639,930	-
Of which:		
– Banks	574,730	-
– Government/Public sectors	-	-
– Others	95,065,200	-
India	41,916,000	9,980,000
Of which:		
– Banks	-	-
– Government/Public sectors	-	-
– Others	41,916,000	9,980,000
Others	63,499,503	-
Of which:		
– Banks	8,093,065	-
– Government/Public sectors	-	-
– Others	55,406,438	-
Total	708,275,360	11,140,835

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management (continued)

The 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.

(ii) Geographical analysis of investments in debt and other securities

<i>Region</i>	<i>Gross Investments MOP</i>
Hong Kong SAR	35,244,126
Of which:	
– Banks	31,936,000
– Government/Public sectors	-
– Others	3,308,126
United Kingdom	15,968,000
Of which:	
– Banks	15,968,000
– Government/Public sectors	-
– Others	-
Netherlands	15,968,000
Of which:	
– Banks	-
– Government/Public sectors	-
– Others	15,968,000
Total	67,180,126

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management (continued)

(b) Industry distribution of exposures

The following information concerning the further analysis of loans and advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors.

	<i>Gross loans and advances to customers</i> MOP	<i>Overdue loans and advance (less than 3 months)</i> MOP
Manufacturing	339,987,495	9,980,000
Construction and public works	19,435,824	-
Trading	63,074,157	1,160,835
Restaurants, hotels, etc	50,382,375	-
Transportation, storage and communication	4,282,361	-
Personal loans	573,891	-
Banks and other monetary and finance institutions	107,828,336	-
Housing business	95,065,200	-
Laundries and dyer's shop	15,165,777	-
Property sales	8,105,126	-
Others	4,374,818	-
	<u>708,275,360</u>	<u>11,140,835</u>

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management (continued)

(c) Maturity analysis on assets and liabilities

Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period as at 31 December 2012 to the contractual maturity date:

	<i>Maturity date of financial instruments</i>							<i>Total</i> MOP
	<i>On demand</i> MOP	<i>Up to</i> <i>1 month</i> MOP	<i>1 to 3</i> <i>months</i> MOP	<i>3 to 12</i> <i>months</i> MOP	<i>1 to 3</i> <i>years</i> MOP	<i>More than</i> <i>3 years</i> MOP	<i>Within an</i> <i>indefinite period</i> MOP	
Assets								
Cash and balances with and loans and advances to banks	115,272,411	1,117,760,000	1,716,560,000	874,248,000	79,840,000	-	-	3,903,680,411
Other securities	3,258,537	-	-	-	-	-	63,872,000	67,130,537
Loans and advances to customers	42,159,016	79,223,434	51,771,195	237,575,893	297,545,822	-	-	708,275,360
Interest receivables	-	7,873,064	15,752,372	9,602,810	-	-	-	33,228,246
	<u>160,689,964</u>	<u>1,204,856,498</u>	<u>1,784,083,567</u>	<u>1,121,426,703</u>	<u>377,385,822</u>	<u>-</u>	<u>63,872,000</u>	<u>4,712,314,554</u>

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management (continued)

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

Analysis of assets and liabilities by remaining maturity (continued)

	<i>Maturity date of financial instruments</i>							<i>Total</i> MOP
	<i>On demand</i> MOP	<i>Up to</i> <i>1 month</i> MOP	<i>1 to 3</i> <i>months</i> MOP	<i>3 to 12</i> <i>months</i> MOP	<i>1 to 3</i> <i>years</i> MOP	<i>More than</i> <i>3 years</i> MOP	<i>Within an</i> <i>indefinite period</i> MOP	
Liabilities								
Deposits and balances of banks and financial institutions	-	5,150,000	-	-	-	-	-	5,150,000
Deposits from non-bank customers	46,011,301	541,883,032	504,533,285	38,639,255	-	-	-	1,131,066,873
Deposits from public sector entities	-	682,211,919	1,610,062,871	101,636,712	-	-	-	2,393,911,502
Deposits from holding and associated companies	2,862,910	701,149,840	-	-	-	-	-	704,012,750
Interest payables	-	5,510,719	10,909,583	1,001,400	-	-	-	17,421,702
	<u>48,874,211</u>	<u>1,935,905,510</u>	<u>2,125,505,739</u>	<u>141,277,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,251,562,827</u>
Net asset (liability) position	<u>111,815,753</u>	<u>(731,049,012)</u>	<u>(341,422,172)</u>	<u>980,149,336</u>	<u>377,385,822</u>	<u>-</u>	<u>63,872,000</u>	<u>460,751,727</u>

Unaudited information (continued)

(Expressed in Macau Patacas)

8 Credit risk management (continued)

(d) Analysis of past due assets

As of 31 December 2012, there were no assets that have been past due for more than 3 months.

9 Market risk management

Market risk is the risk arising from the movements in market prices of on and off-balance sheet positions in interest rates, foreign exchange rates, equity and commodity prices and the resulting change in the profit or loss or reserves of the Bank.

The Bank is exposed to market risk through its holdings of foreign currency denominated financial assets and liabilities, interest bearing financial instruments and equity financial instruments. The principal risk exposure of the Bank is from the fluctuation in the future cash flows or fair value of financial instruments due to the change in market interest rate and foreign exchange rate.

The EC reviews and approves the policies for the management of market risk. It has the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework, such as the established limits and stop-losses. The limits are set by EC and reviewed on a periodic basis with reference to market conditions. It is the Bank's policy that no limit should be exceeded. Treasury department has been delegated the responsibility on risk measurement and monitoring of market risk.

The Bank enters into financial derivative transactions for the management of assets and liabilities. The Bank uses interest rate swaps to manage mismatches in the interest rate of assets and liabilities. For assets and liabilities denominated in foreign currencies, the Bank will be exposed to risks due to the fluctuations of exchange rates. The Bank will use currency swaps and forward contract to mitigate these risks.

As of 31 December 2012, the Bank's market risk is primarily from foreign exchange swap transactions. There were no outstanding interest rate swaps as of balance sheet date.

Unaudited information (continued)

(Expressed in Macau Patacas)

9 Market risk management (continued)

The capital charge for market risk calculated in accordance with Notice no. 011/2007-AMCM guidelines as follows:

	MOP In '000'
Capital charge on foreign exchange	
Exposure/Total capital charge for market risk	34
Weighted Market Risk Exposure	425

10 Interest rate risk

The Bank's interest rate risk arises primarily from loans and advances to customers, deposits and placements, investment in debt securities and borrowings.

Fluctuations in market interest rates affect the Bank's net interest margin by altering the amount of income and costs associated to interest rate products and the value of the underlying assets, liabilities and off-balance sheet items.

The Bank interest rate risk exposure is calculated on the basis of classifying all interest rate sensitive assets, liabilities and off-balance sheet items based on their respective repricing schedule. It is assumed that there were no loan prepayments and the non-maturity deposits are fully retained and repriced on the next day. This model is similar to the duration model, using a stress testing scenario corresponding to a parallel shift of 200 basis points in the yield curve for all interest rate levels.

Interest rate risk is re-measured on a monthly basis, or when there is a change in the market condition.

Sensitivity analysis

The following table indicates the instantaneous change in the Bank's economic values of own funds that would arise if interest rates to which the Bank has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. Actual changes in the Bank's economic values of own funds resulting from the change in interest rates may differ from the result of the sensitivity analysis.

Unaudited information (continued)

(Expressed in Macau Patacas)

10 Interest rate risk (continued)

As of 31 December 2012, interest rate risk weighted position on all currencies, measured as its impact in the economic values of own funds as follows:

	MOP In '000'
MOP	(3,093)
HKD	181
USD	9,466

The impact on economic value as a percentage of our own funds is 1.5%.

11 Operational risk management

Operational risks arise from the Bank's daily operation and fiduciary activities. The Bank's compliance department play an essential role in monitoring and limiting the Bank's operational risk. The primary focus of compliance departments is to ensure adherence to the operating guidelines, including regulatory and legal requirements and to pro-actively recommend improvements.

The Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements.

12 Foreign exchange risk

The Bank's functional currency is Macau Patacas ("MOP"). The Bank is exposed to currency risk primarily arising from financial instruments that are denominated in United States dollars ("USD") and other major currencies.

As the MOP is pegged to HKD and the HKD is pegged to the USD, the Bank considers the risk of movements in exchange rates between these currencies to be insignificant.

Unaudited information (continued)

(Expressed in Macau Patacas)

12 Foreign exchange risk (continued)

In respect of balances denominated in foreign currencies other than MOP, USD and HKD, the associated assets are matched to the corresponding liabilities denominated in the same currency. Therefore, the effect of foreign exchange fluctuation is minimized.

The following table indicates the concentration of currency risk as of 31 December 2012:

(In thousand of MOP equivalent)

	HKD	CAD	CNY	EUR	GBP	USD
Spot assets	203,195	123	90	101,118	144	4,162,555
Spot liabilities	(12,808)	-	-	(101,913)	-	(1,290,766)
Forward sales	-	-	-	-	-	(2,854,280)
Net long (short) position	<u>190,387</u>	<u>123</u>	<u>90</u>	<u>(795)</u>	<u>144</u>	<u>17,509</u>

13 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

The Bank's liquidity is managed day-to-day by the Treasury department. The EC of the Bank has the ultimate responsibility for the prudent management of liquidity risk and decision on the structure of the liquidity management. The EC approves the liquidity risk tolerance by defining the level of liquidity risk that the Bank is willing to assume. A liquidity risk strategy is developed and this will be expressed as various high-level quantitative and qualitative targets taking into account the Bank's liquidity needs under both normal and stressful conditions.

To cater for short term funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Bank also performs regular stress tests on its liquidity position to ensure adequate liquidity is maintained at all times.

Unaudited information (continued)
(Expressed in Macau Patacas)

13 Liquidity risk (continued)

(a) Average liquidity

(i) Average weekly liquidity for the year

	MOP In '000'
Minimum weekly cash in hand	37,989
Average weekly cash in hand	45,699

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

(ii) Liquidity ratio for the year

	In Percentage
1 month current ratio	91.07%
3 months current ratio	164.20%

The liquidity ratio is computed as the simple average of the percentage of specified assets to liabilities in the last week of each calendar month in accordance with AMCM's requirement, as reported in the monthly return submitted to AMCM.

(b) Average solvency assets

	MOP In '000'
Average specified liquid assets	2,038,197
Average total basic liabilities	2,202,249
Ratio of specified liquid assets to basic liabilities	96.04%

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