

Bank of China Limited,
Macau Branch

Disclosure of Financial Information

31 December 2015

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARISED FINANCIAL INFORMATION

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

We have audited the 2015 financial statements of Bank of China Limited, Macau Branch in accordance with the Auditing Standards and the Technical Auditing Standards of the Macau Special Administrative Region and on 17 March 2016 issued an auditor's report with an unqualified opinion on the financial statements.

The audited financial statements comprise the balance sheet as at 31 December 2015, the income statement, a statement of recognised income and expenses, a cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

Ieong Lai Kun, Registered Auditor

KPMG

Macau, 17 March 2016

SUMMARY OF 2015 MANAGEMENT REPORT OF BANK OF CHINA MACAU BRANCH

Complex and volatile global economy and turbulent financial markets in 2015 have generated a lot of pressure on the banking sector. However, Bank of China Macau Branch (BOC Macau) actively took on responsibilities during this difficult situation, calmly dealt with market changes, gained stable increase in business performance, forged ahead with all work, and made great effort in maintaining the economic and financial stability in Macau.

In 2015, BOC Macau has continued to practice the principle of “Rooted in Macau, Steadfast in Serving”, carry on the corporate culture of “Devoted to China and Macau, Dedicated to the bank and profession”, dedicate to innovation and transformation, and provide quality financial services for people and clients in Macau. Regarding customer service and experience, we constantly introduced new products and services, including Online Queuing System, BOC Tax Connect, Mobile Banking App2.0, Indirect-Connected Acquiring Mode II, Online Acquiring Service, BOC e-Government Service, etc. and have successfully improved our customers’ experiences. In terms of improving international operation, we have actively explored new markets and growth opportunities and achieved historic breakthroughs in various aspects, including being designated as the RMB clearing platform for Portuguese-speaking countries, providing cross-border M&A and structured financing for a number of locally and internationally well-known corporations, successfully completing the first import-export entrusted loan, providing discretionary asset management and premium financing for affluent individuals, being the first to launch innovative products designed especially for businesses in the free trade zone, such as cross-border loan, etc. Regarding internal controls, we further reinforced the awareness for compliance, emphasized the importance of compliance management, and strengthened risk control. During Macau’s economic downturn, we dealt with potential risks effectively, prevented financial risks and maintained financial security.

Regarding assuming social responsibilities, BOC Macau established Bank of China Macau Branch Volunteers Association and Bank of China Macau Branch Sports Association in 2015. There are currently 916 members in the Volunteers Association, who participated in 117 volunteer projects in 2015 and gained high recognition and admiration from the society. At the same time, the Sports Association, the Recreation Club and the Youth Association under BOC Macau held plenty of big sports and charity events to repay the society. These associations have also organized our team members to participate in many community public service events, reinforcing the connection with various aspects of the Macau society and contributing to the development of education, sports, science, technology and public service in Macau.

The year 2016 is going to be a year of challenges, and also a year of innovation and reform. We will continue to practice the group’s strategic goal of “Serving Society, Delivering Excellence”, accelerate our transformation, and continue to provide excellent, convenient and appropriate comprehensive financial services to our customers. We will support and cooperate with the Macau SAR government in the rule of law as we always do. Benefiting from Macau’s stable political environment and being a “natural” free trade zone and “the Cooperation and Service Platform of Business and Trade between China and Portuguese-speaking Countries”, and facing the tremendous opportunities from China’s “One Belt, One Road” initiatives, BOC Macau will fully carry out the requirements of the Macau SAR Chief Executive to develop the “characteristic” financial services industry in order to complete the financial ecosphere of Macau, speed up the transformation and upgrading, offer suggestions for the appropriate diversification of Macau’s economy, and build a prosperous future together.

Bank of China Macau Branch
General Manager
Wang Shaojun
17 March 2016

BALANCE SHEET

As at 31 December 2015

(Expressed in thousands of Macau Patacas)

	2015		
	<i>Amounts</i> <i>MOP'000</i>	<i>Reserves, depreciation and impairments</i> <i>MOP'000</i>	<i>Net Amount</i> <i>MOP'000</i>
Assets			
Cash	3,691,568	-	3,691,568
Deposits at AMCM	9,844,017	-	9,844,017
Certificates of indebtedness of Macau SAR	7,103,495	-	7,103,495
Accounts Receivable	11,538	-	11,538
Current deposits at other local credit institutions	15,807	-	15,807
Current deposits at other overseas credit institutions	22,848,480	-	22,848,480
Loans and advances	308,524,078	456,453	308,067,625
Placement to local credit institutions	9,285,717	-	9,285,717
Call and fixed deposits at overseas credit institutions	191,989,034	-	191,989,034
Shares, bonds and equities	15,381,358	-	15,381,358
Debtors	565,522	-	565,522
Other investments	4,614,047	-	4,614,047
Financial investments	77,660	-	77,660
Properties	1,125,916	503,318	622,598
Equipments	923,789	669,719	254,070
Deferred expenses	318,542	293,531	25,011
Construction in progress	9,723	-	9,723
Other fixed assets	322	279	43
Internal and adjustment accounts	6,288,795	-	6,288,795
TOTAL	582,619,408	1,923,300	580,696,108

BALANCE SHEET (Continued)
 As at 31 December 2015
 (Expressed in thousands of Macau Patacas)

	2015	
	<i>Sub-total</i>	<i>Total</i>
Liabilities	<i>MOP'000</i>	<i>MOP'000</i>
Bank notes of Macau SAR in circulation		7,275,252
Current deposits	118,938,249	
Fixed deposits	200,260,091	319,198,340
Deposits from public sector		52,570,332
Amounts due to local credit institutions	3,681,609	
Amounts due to overseas credit institutions	178,292,313	
Cheques and bills payable	495,776	
Creditors	2,098,286	
Other liabilities	715	184,568,699
Internal and adjustment accounts		7,233,785
Provision		3,584,141
Operating funds		1,032,600
Revaluation reserves		27,978
Profit for the period		5,204,981
TOTAL		580,696,108

PROFIT AND LOSS ACCOUNT
 For the year ended 31 December 2015
 (Expressed in thousands of Macau Patacas)

Income Statement			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Operating costs	7,386,831	Operating income	13,855,071
Personnel expenses		Income from banking services	1,148,365
Staff costs	1,453,077	Other operating income	486,717
Staff benefits	130,639	Income from securities and financial investment	531,916
Supplies by third party	51,864	Other banking income	50,915
Services provided by third party	319,666	Non operating income	65,670
Other banking expenses	403,337		
Tax expenses	58,621		
Non operating expenses	1,187		
Depreciation expenses	179,016		
Provision	618,602		
Operating profit	5,535,814		
TOTAL	16,138,654	TOTAL	16,138,654

PROFIT AND LOSS ACCOUNT (Continued)
 For the year ended 31 December 2015
 (Expressed in thousands of Macau Patacas)

Profit and loss account			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Loss from prior years	3,110	Operating profit	5,535,814
Tax on profit	333,332	Income from previous years	2,499
Profit	5,204,981	Provision written off	3,110
TOTAL	5,541,423	TOTAL	5,541,423

Approved and authorised for issue by the management of the Branch on 17 March 2016

Wang Shaojun

General Manager

CASH FLOW STATEMENT

For the year ended 31 December 2015
 (Expressed in thousands of Macau Patacas)

	2015 <u>MOP'000</u>
Operating activities	
Profit before taxation	5,538,313
Adjustments for non-cash items:	
– Depreciation	179,016
– Amortisation of discount and premium of debt securities	29,765
– Interest income on held-to-maturity debt investments and available-for-sale financial assets	(528,938)
– Dividend income	(824)
– Share of profits of associate	(2,155)
– Provisions for loans and other assets	618,145
	<u>295,009</u>
	<u>5,833,322</u>
Net changes in operating assets:	
– Amounts due from financial institutions	(24,300,366)
– AMCM Monetary Bills	(1,043,592)
– Loans and advances to customers	(24,963,940)
– Certificate of Indebtedness of Macau SAR	(787,270)
– Other assets	(2,438,720)
	<u>(53,533,888)</u>
Net changes in operating liabilities:	
– Amounts due from financial institutions	44,615,545
– Customers deposits	24,060,406
– Bank notes of Macau SAR in circulation	842,424
– Other liabilities	2,845,771
– Certificates of deposit issued	6,305,810
	<u>78,669,956</u>
Net cash inflow from operating activities	30,969,390
Macau Complementary Tax refund	98,726
Macau Complementary Tax paid	(658,566)
	<u>30,409,550</u>

CASH FLOW STATEMENT (Continued)
 For the year ended 31 December 2015
 (Expressed in thousands of Macau Patacas)

	2015 <u>MOP'000</u>
Net cash inflow from operating activities	<u>30,409,550</u>
Investing activities	
Dividends received	824
Interest received from held-to-maturity debt investments and available-for-sale financial assets	457,558
Purchase of property and equipment	(425,674)
Purchase of held-to-maturity debt investments and available-for-sale financial assets	(28,343,444)
Proceeds from sale of held-to-maturity debt investments and available-for-sale financial assets	<u>13,128,210</u>
Net cash outflow from investing activities	<u>(15,182,526)</u>
Financing activity	
Funds remitted to Head Office	<u>(4,577,731)</u>
Net cash outflow from financing activity	<u>(4,577,731)</u>
Increase in cash and cash equivalents	10,649,293
Cash and cash equivalents as at 1 January	<u>117,217,105</u>
Cash and cash equivalents as at 31 December	<u>127,866,398</u>
Cash flows from operating activities include:	
Interest received	12,454,497
Interest paid	<u>7,067,133</u>
The following table is the analysis cash and cash equivalents of the branch:	
Cash in hand	<u>3,691,568</u>
Repayable on demand	
- Balance with AMCM	9,844,017
- Balance with financial institutions	46,782,164
Balance with financial institutions with original maturities	169,703,674
AMCM Monetary Bills	6,534,967
	<u>232,864,822</u>
Cash and cash equivalents as at 31 December	236,556,390
Less: Balance with financial institutions with original maturities over 3 months	(102,155,025)
Less: AMCM Monetary Bills with original maturities over 3 months	(6,534,967)
Cash and cash equivalents which are readily convertible into cash as at 31 December	<u>127,866,398</u>

OFF-BALANCE-SHEET EXPOSURES

(Expressed in thousands of Macau Patacas)

As at 31 December 2015, the Branch had the following contingent liabilities and outstanding commitments:

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

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

	<i>2015</i> <i>MOP'000</i>
	<hr/>
Direct credit substitutes	24,264,614
Transaction-related contingencies	19,486,718
Trade-related contingencies	4,862,123
Other commitments	100,486,138
	<hr/>
	<u>149,099,593</u>

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

(b) **Derivatives**

	<i>2015</i>			
			<i>Fair Value</i>	
	<i>Notional amount</i>	<i>Credit risk weighted amount</i>	<i>Assets</i>	<i>Liabilities</i>
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
	<hr/>	<hr/>	<hr/>	<hr/>
Exchange rate derivatives	222,824,792	1,247,086	3,223,512	2,288,962
Interest rate derivatives	2,622,205	9,798	10,608	4,415
Equity derivatives	50,804	837	329	329
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>225,497,801</u>	<u>1,257,721</u>	<u>3,234,449</u>	<u>2,293,706</u>

ACCOUNTING POLICIES

(a) ***Statement of compliance***

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

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

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

The financial statements are prepared in Macau Patacas (“MOP”), and rounded to the nearest thousand.

The measurement basis used in the preparation of the financial statements is historical cost basis except for available-for-sale financial assets and derivatives which are stated at their fair value as explained in the accounting policies set out in item (c) and (m).

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

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

Judgements made by management in the application of MFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in the section “Accounting estimates and judgements”.

(c) ***Investments***

(i) ***Equity investments***

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

ACCOUNTING POLICIES (Continued)

(c) *Investments (Continued)*

(i) Equity investments (Continued)

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

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

(ii) Debt investments

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

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

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

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

(iii) Certificates of deposit held

Certificates of deposit held are non-derivative financial assets that are designated as available-for-sale. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Certificates of deposit held are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised and accumulated separately in revaluation reserve in equity, except for foreign exchange gains and losses which are recognised in profit or loss.

When the certificates of deposit held are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in revaluation reserve shall be reclassified from equity to profit or loss.

ACCOUNTING POLICIES (Continued)

(c) *Investments (Continued)*

(iv) Fair value measurement principles

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

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 balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(d) *Loans and advances to customers*

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

(ii) All advances on which principal or interest have been overdue for more than three months are classified as non-performing in accordance with the requirements of the AMCM. In addition, relevant loans and advances are classified as non-performing when there is evidence indicating that they cannot be fully recovered.

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

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

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

ACCOUNTING POLICIES (Continued)

(e) ***Investments in associate***

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

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

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

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

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

(g) ***Leased assets***

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

(h) ***Impairment***

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

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

ACCOUNTING POLICIES (Continued)

(i) **Translation of foreign currencies**

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

(j) **Employee benefits**

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

(k) **Income recognition**

(i) Interest income

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

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

Except for non-performing loans (see item (d)(iii)), other interest income is recognised in profit or loss as it accrues.

(ii) Fee and commission income

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

(iii) Dividend income

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

(l) **Taxation**

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

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

ACCOUNTING POLICIES (Continued)

(l) Taxation (Continued)

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

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

(m) Derivatives

Derivatives include mainly forward, swap and option transactions undertaken by the Branch in the foreign exchange, stock and interest rate markets.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. All derivatives are reported under “other assets” when fair value is positive and under “other liabilities” when fair value is negative.

(n) Cash and cash equivalents

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

(o) Other receivables

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

(p) Other payables

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

ACCOUNTING POLICIES (Continued)

(q) Related parties

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

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

In determining the carrying amounts of certain assets and liabilities, the Branch makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Branch's estimations and assumptions are based on historical experience and expectation of future events and are reviewed periodically.

Impairment losses of loans and advances

The loan portfolio is reviewed periodically to assess whether impairment losses exist. The Branch makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data that the payment status of borrowers has adversely changed. It may also include observable data on local or economic conditions that correlate with defaults on the assets in the Branch. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Branch. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Fair value of derivatives and other financial instruments

The Branch establishes fair value of financial instrument with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, and commonly used market pricing models. Whenever possible these models use observable market inputs and data. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

RELATED PARTIES TRANSACTIONS

(Expressed in thousands of Macau Patacas)

(a) *Transactions with key management personnel*

Key management personnel of the Branch

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

	<i>2015</i>
	<i>MOP'000</i>
As at 1 January	14,408
Additional loans made during the period	5,000
Repayment during the period	(7,646)
As at 31 December	<u>11,762</u>

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

(b) *Transactions between group members*

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

RELATED PARTIES TRANSACTIONS (Continued)

(Expressed in thousands of Macau Patacas)

(b) Transactions between group members (continued)

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

	<i>Balance with Head Office and overseas branches MOP'000</i>	<i>Balance with associate MOP'000</i>	<i>Balance with group members MOP'000</i>	<i>Total MOP'000</i>
2015				
Interest income	3,475,506	-	496,884	3,972,390
Interest expense	(2,736,667)	(563)	(58,493)	(2,795,723)
Management fee	(34,371)	-	(10,800)	(45,171)
Agency fee	-	-	194,515	194,515
Other fee and commission income	2,793	-	-	2,793
Other fee and commission expense	(159,720)	-	-	(159,720)
	<u>547,541</u>	<u>(563)</u>	<u>622,106</u>	<u>1,169,084</u>

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

	<i>Balance with Head Office and overseas branches MOP'000</i>	<i>Balance with associate MOP'000</i>	<i>Balance with group members MOP'000</i>	<i>Total MOP'000</i>
2015				
Amounts due from financial institutions	160,503,622	-	47,029,524	207,533,146
Loans and advances to customers	-	-	1,659,694	1,659,694
Amounts due to financial institutions	(170,058,427)	-	(7,071,673)	(177,130,100)
Customer deposits	-	(6,421)	(4,122,533)	(4,128,954)
	<u>(9,554,805)</u>	<u>(6,421)</u>	<u>37,495,012</u>	<u>27,933,786</u>

CREDIT RISK MANAGEMENT

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

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

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

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

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

(i) **Geographical analysis of loans and commitments, debt investments and derivatives**

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

Region	2015		
	<i>Loans and commitments</i>	<i>Debt investments</i>	<i>Derivatives</i>
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
Macau SAR	212,614,969	6,534,967	487,069
<i>in which:</i>			
- banks	-	-	-
- governments	-	6,534,967	-
- public sector entities	-	-	-
- others	212,614,969	-	487,069
Hong Kong SAR	99,207,840	2,060	894,512
<i>in which:</i>			
- banks	-	-	858,363
- governments	-	-	-
- public sector entities	-	-	-
- others	99,207,840	2,060	36,149
Mainland China	78,298,223	12,050,735	1,852,868
<i>in which:</i>			
- banks	-	8,498,361	223,656
- governments	-	182,364	-
- public sector entities	-	-	-
- others	78,298,223	3,370,010	1,629,212
Others	18,889,184	7,942,610	-
<i>in which:</i>			
- banks	319,336	-	-
- governments	-	7,942,610	-
- public sector entities	-	-	-
- others	18,569,848	-	-
Total	409,010,216	26,530,372	3,234,449

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

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

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

<i>Region</i>	<i>2015</i>		
	<i>Gross loans and advances to customers MOP'000</i>	<i>Overdue loans and advances MOP'000</i>	<i>Specific provision MOP'000</i>
Macau SAR	155,683,705	445,290	382,384
Hong Kong SAR	69,290,351	5,427	5,377
Mainland China	69,599,355	18,160	341
Others	13,950,667	-	-
Total	308,524,078	468,877	388,102

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

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

(iii) Industry distribution on loans and advances to customer

	2015		
	<i>Gross loans and advances to customers MOP'000</i>	<i>Past due loans and advances MOP'000</i>	<i>Specific provision MOP'000</i>
Agriculture and fisheries	1,734	-	-
Mining industries	1,068,513	-	-
Manufacturing industries			
- Foodstuffs and beverages	3,291,139	-	-
- Clothing	779,453	12,057	8,633
- Other textile productions	84,114	-	-
- Leather articles	2,731	-	-
- Wood and furniture	27,221	-	-
- Paper, printing and publishing	4,109,393	-	-
- Toys	15,102	-	-
- Machinery and other electrical and electronic goods	1,378,275	2,451	-
- Artificial flowers	753	-	-
- Other manufacturing industries (not mentioned above)	4,526,939	5,150	-
Electricity, gas and water	6,630,767	23,262	23,262
Construction and public works	47,118,868	-	-
Wholesale and retail trade	67,352,847	250,562	244,031
Restaurants, hotels and similar	12,822,892	-	-
Transport, warehousing and communications	13,109,823	87,710	87,710
Non-monetary financial institutions	43,928,086	-	-
Exhibition and conference	17,903	-	-
Education	802,417	-	-
Information technology	1,758,279	-	-
Other industries	8,922,997	776	504
Personal loans			
- Personal housing loans	58,607,372	68,076	16,282
- Credit card balances (interest bearing components)	108,310	12,252	6,185
- Car loans	26,045	295	295
- Other personal loans	32,032,105	6,286	1,200
	<u>308,524,078</u>	<u>468,877</u>	<u>388,102</u>

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

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

(iv) *Maturity analysis on assets and liabilities*

As at 31 December 2015

	<i>Maturity date of financial instruments</i>						<i>Total</i>
	<i>On Demand</i>	<i>Less than 1 month</i>	<i>Between 1 to 3 months</i>	<i>Between 3 to 12 months</i>	<i>Between 1 to 3 years</i>	<i>Over 3 years</i>	
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
Financial assets							
Cash in hand	3,691,568	-	-	-	-	-	3,691,568
Amounts due from banks	56,626,181	51,534,556	51,314,895	60,761,486	6,092,737	1,030,000	227,359,855
AMCM Monetary Bills	-	399,872	2,797,076	3,338,019	-	-	6,534,967
Held-to-maturity debt securities	-	-	-	-	-	2,060	2,060
Available-for-sale financial assets	-	943,010	985,319	3,272,074	10,664,084	4,128,858	19,993,345
Loans and advances to customers	-	10,688,902	20,946,127	69,090,802	69,891,742	137,906,505	308,524,078
	<u>60,317,749</u>	<u>63,566,340</u>	<u>76,043,417</u>	<u>136,462,381</u>	<u>86,648,563</u>	<u>143,067,423</u>	<u>566,105,873</u>

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

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

As at 31 December 2015 (continued)

	<i>Maturity date of financial instruments</i>						<i>Total</i>
	<i>On Demand</i>	<i>Less than 1 month</i>	<i>Between 1 to 3 months</i>	<i>Between 3 to 12 months</i>	<i>Between 1 to 3 years</i>	<i>Over 3 years</i>	
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	
Financial liabilities							
Deposits and balances of banks and financial institutions	3,870,255	7,005,117	333,596	331,900	-	-	11,540,868
Deposits from non-bank customers	118,959,156	49,592,448	56,833,294	67,200,883	881,470	-	293,467,251
Deposits from public sector entities	3,862,022	19,064,847	10,229,940	19,413,523	-	-	52,570,332
Deposits from associated companies	6,421	-	-	-	-	-	6,421
Deposits from head office and overseas branches	47,116,300	6,817,496	36,969,396	43,363,355	22,319,531	13,472,349	170,058,427
Certificates of deposit issued	-	-	6,914,066	11,673,433	4,324,883	2,812,286	25,724,668
	<u>173,814,154</u>	<u>82,479,908</u>	<u>111,280,292</u>	<u>141,983,094</u>	<u>27,525,884</u>	<u>16,284,635</u>	<u>553,367,967</u>

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

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

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

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

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

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

CREDIT RISK MANAGEMENT (Continued)

(Expressed in thousands of Macau Patacas)

(v) *Overdue loans and advances to customers*

	2015	
	<i>MOP'000</i>	<i>% of total loans</i>
Gross loans and advances to customers of which either principal or interest have been overdue:		
- Non-performing loans and advances of 3 months or less	243,985	0.08%
- Between 3 to 6 months	34,498	0.01%
- Between 6 to 12 months	21,691	0.01%
- Over 1 year	168,703	0.05%
	468,877	0.15%
 Current market value of collateral held against the covered portion of overdue loans and advances	 75,583	
 Specific provision made on overdue loans and advances	 388,102	

(vi) *Overdue other assets*

	2015	
	<i>MOP'000</i>	<i>% of total other assets</i>
Other assets which have been overdue:		
- Between 3 to 6 months	154	0.02%
- Between 6 to 12 months	1,170	0.19%
- Over 1 year	3,397	0.54%
	4,721	0.75%
 Specific provision made on overdue other assets	 4,021	

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

MARKET RISK MANAGEMENT

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

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

INTEREST RATE RISK MANAGEMENT

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

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

OPERATIONAL RISK MANAGEMENT

The Branch manages operational risk through setting up and adopting an organization structure that covers all aspects of business and best matches the scale and complexity of our business. Through setting up operational risk policies and organizational structure, we have created the methods and standards to ensure that operational risks are managed in a professional, detailed and standardized way, focusing on 3 major areas : (1) the standardization of classifications for operational risk and unification of management language; (2) the creation of systematic management measures based on management cycle of risk identification, assessment, mitigation, monitoring and reporting; and (3) the standardization of the management structure and the operational mechanism for new products, outsourcing and business continuity management.

The Branch has continuously been improving the operational risk management framework, deepening the application of operational risk management tools and carrying out operational risk identification, assessment and monitoring using the 3 major tools, i.e. Risk and Control Assessment (RACA), Key Risk Indicators (KRI) and Loss Data Collection (LDC). Reviews have been carried out on the implementation of the 3 major tools in order to improve the methodologies and means of implementation, fine-tune the operational risk management information system and enhance the user-friendliness of the systems and functions. Various internal control and operational risk management reposts have been integrated so as to improve the reporting system.

By keeping track of loss-causing catastrophic operational risk events of local and overseas banking institutions and analyzing inherent risk control problems based on external events, we have enhanced our risk prevention ability. Furthermore, internal control inspections on high-risk business areas has been conducted, all problems found internally and externally during the inspections have been recorded in detail and an internal control rectification mechanism of centralized management and unified follow-up has been adopted and thus fosters the sustainable perfection of our risk control process.

FOREIGN EXCHANGE RISK MANAGEMENT

(Expressed in thousands of Macau Patacas)

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

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

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

	<i>2015</i>
	<u><i>MOP'000</i></u>
HKD	18,403,757
USD	(67,530)
RMB	76,447
Others	
Long Position	2,427
Short Position	(1,234)

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

	<i>2015</i>
	<u><i>MOP'000</i></u>
HKD	
Spot assets	173,474,656
Spots liabilities	(186,327,226)
Forward purchases	37,675,444
Forward sales	(6,415,685)
Net option position	(3,432)
Net long/(short) position	<u><u>18,403,757</u></u>

LIQUIDITY RISK MANAGEMENT

(Expressed in thousands of Macau Patacas)

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

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

(i) Average weekly liquidity

	2015 MOP'000
Average minimum weekly amount of cash in hand	7,087,538
Average weekly amount of cash in hand	13,592,743

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

(ii) Average liquidity ratio

	2015
1 month current ratio	52%
3 months current ratio	57%

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

(iii) Average solvency assets

	2015 MOP'000
Solvency assets	138,798,219
Underlying liabilities	355,545,780
Ratio of solvency assets to underlying liabilities	39%

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

OTHER INFORMATION

(Expressed in thousands of Macau Patacas)

(a) **Operating lease commitments**

Non-cancellable operating leases are payable as follows:

	<i>2015</i> <i>MOP'000</i>
Less than 1 year	30,010
Between 1 to 5 years	56,086
Over 5 years	28,717
	<u>114,813</u>

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

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