

Bank of China Limited,
Macau Branch

Disclosure of Financial Information

31 December 2016

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

Summary of 2016 Management Report

In 2016, due to the volatile economy in nearby regions and the constant adjustment of local economy, Macau's banking sector has suffered from weak market demand and falling asset price. However, Bank of China Macau Branch (BOC Macau) has calmly dealt with market fluctuations and maintained a good and healthy development trend in this difficult situation through implementing the "Bank of China Macau Branch Five-Year Development Plan (2016-2020)", firmly supporting local economic development, participating in building the Sino-Lusófono financial platform, serving the One Belt One Road strategy and striving to explore a capital-light development path.

In the past year, in terms of strategy, we established our goal of transformation to develop businesses in five areas—commercial banking, investment banking, transaction banking, large asset management and internet finance, which is also the key for us to carry out the government's policy to develop Macau's characteristic finance. In terms of operation, we have initially set up two platforms—the financial ecosystem and the internet finance, completed the profit model with "three carriages"—corporate finance, personal finance and financial markets, and determined our development towards capital-light businesses. In terms of risk control and compliance, we continued to implement the functions of the three defense lines, reinforced the compliance awareness and operation, improved the top-level design of anti-money laundering (AML) procedures, assigned a chief compliance officer, and led the implementation of the new AML guidelines given by AMCM. Thus we gained enormous progress in lawful operation and compliance. In the meantime, we strengthened our work in risk warning, kept a good quality of credit asset, and enhanced our risk management. In terms of internal regulations, we have effectively carried out the human resource regulations of talent flow-in and flow-out and required staff to be able to work both at higher and lower levels. In terms of corporate culture, it is deeply rooted in all staff that we share the same values and work in the same direction of actively taking responsibility and making commitment.

Regarding social responsibilities, we actively promoted and drove the construction of Macau's characteristic finance, and coordinated Macau SAR's appropriate diversification of economy. We firmly stood beside small-and-medium-sized local enterprises (SMEs) and specially designed products such as Supplier Easy and SME Insurance. We also launched the "Investment and Financing Platform" to provide various investment, financing and order information exclusively for SMEs. Until the end of 2016, our financial services have covered over 30,000 SMEs and the loan balance exceeded MOP25 billion. Besides, we continued to hold series of brand events, such as Charity Walk and Charity Run, and gained enormous support from the government and the Macau society. We have also collaborated with higher education institutions in the form of "Bank of China Forum" to nurture financial professionals so as to support Macau SAR's economic development.

In 2017, we will continue to provide excellent financial services for Macau society, support Macau's economic development, maintain its financial stability, and make new contributions to the appropriate diversification of Macau's economy!

Bank of China Macau Branch
General Manager
Wang Shaojun
24 March 2017

Independent Auditor's Report on the Summarised Financial Information

To the Management 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 2016 financial statements of Bank of China Limited, Macau Branch in accordance with the Auditing Standards and the Technical Auditing Standards of the Macao Special Administrative Region and issued an auditor's report on 24 March 2017 with an unqualified opinion on the financial statements.

The audited financial statements comprise the balance sheet as at 31 December 2016, the income statement, a statement of changes in operating fund and reserves, 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 set out on pages 3 to 6 prepared by the management is a summary of the audited financial statements. We believe the summarised financial information is consistent with the audited financial statements in all material respects.

For full understanding on the financial position and operating results of Bank of China Limited, Macau Branch as well as the audit scope, the summarised financial information should be read together with the audited financial statements and the independent auditor's report.

Bao, King To
Registered Auditor
Ernst & Young
Macao
24 March 2017

Bank of China Limited, Macau Branch
Summarised Financial Information
Balance Sheet
As at 31 December 2016

	<i>2016</i>		
	<i>Amounts</i> <i>MOP'000</i>	<i>Reserves, depreciation and impairments</i> <i>MOP'000</i>	<i>Net Amount</i> <i>MOP'000</i>
Assets			
Cash	4,623,769	-	4,623,769
Deposits at AMCM	7,996,702	-	7,996,702
Certificates of indebtedness of Macau SAR	8,094,249	-	8,094,249
Accounts Receivable	22,179	-	22,179
Current deposits at other local credit institutions	2,971	-	2,971
Current deposits at other overseas credit institutions	32,062,765	-	32,062,765
Loans and advances	287,073,356	521,802	286,551,554
Placement to local credit institutions	23,174,862	-	23,174,862
Call and fixed deposits at overseas credit institutions	145,957,915	-	145,957,915
Shares, bonds and equities	17,210,003	-	17,210,003
Debtors	1,181,134	-	1,181,134
Other investments	5,746,584	-	5,746,584
Financial investments	81,230	-	81,230
Properties	1,126,824	525,623	601,201
Equipments	1,005,044	768,112	236,932
Deferred expenses	332,584	314,728	17,856
Construction in progress	27,594	-	27,594
Other fixed assets	322	322	-
Internal and adjustment accounts	4,874,916	-	4,874,916
TOTAL	540,595,003	2,130,587	538,464,416

Bank of China Limited, Macau Branch
Summarised Financial Information
Balance Sheet (Continued)
As at 31 December 2016

	<i>2016</i>	
	<i>Sub-total</i>	<i>Total</i>
Liabilities	<i>MOP'000</i>	<i>MOP'000</i>
Bank notes of Macau SAR in circulation		8,364,888
Current deposits	134,319,923	
Fixed deposits	204,968,074	339,287,997
Deposits from public sector		68,854,603
Amounts due to local credit institutions	19,766,078	
Amounts due to overseas credit institutions	83,284,575	
Cheques and bills payable	769,384	
Creditors	2,815,392	
Other liabilities	881	106,636,310
Internal and adjustment accounts		5,601,278
Provision		3,253,836
Operating funds		1,032,600
Revaluation reserves		(55,396)
Profit for the period		5,488,300
TOTAL		538,464,416

Bank of China Limited, Macau Branch
Summarised Financial Information
Profit and Loss Account
For the year ended 31 December 2016

Income Statement			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Operating costs	5,963,571	Operating income	12,344,122
Personnel expenses		Income from banking services	1,184,174
Staff costs	1,552,695	Other operating income	494,502
Staff benefits	110,439	Income from securities and financial investment	535,910
Supplies by third party	52,335	Other banking income	36,470
Services provided by third party	406,087	Non operating income	74,377
Other banking expenses	466,336		
Tax expenses	10,928		
Non operating expenses	1,224		
Depreciation expenses	180,332		
Operating profit	5,925,608		
TOTAL	14,669,555	TOTAL	14,669,555

Bank of China Limited, Macau Branch
Summarised Financial Information
Profit and Loss Account (Continued)
For the year ended 31 December 2016

Profit and loss account			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Loss from prior years	4,598	Operating profit	5,925,608
Special loss	1	Income from previous years	300,830
Tax on profit	738,139	Special profit	2
Profit	5,488,300	Provision written off	4,598
TOTAL	6,231,038	TOTAL	6,231,038

Approved and authorised for issue by the management of the Branch on 24 March 2017

Wang Shaojun

General Manager

Bank of China Limited, Macau Branch
Cash Flow Statement
For the year ended 31 December 2016

	<i>2016</i>
	<i>MOP'000</i>
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Operating activities	
Profit before taxation	6,226,439
Adjustments for non-cash items:	
– Depreciation	180,332
– Amortisation of discount and premium of debt securities	(44,222)
– Interest income on held-to-maturity debt investments and available-for-sale financial assets	(531,618)
– Gain on disposal of property and equipment	(2)
– Dividend income	(721)
– Share of profits of associate	(3,570)
– Provisions for loans and other assets	(299,000)
	<hr/>
	(698,801)
	<hr/>
	5,527,638
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Net cash inflow/(outflow) from operating assets:	
– Amounts due from financial institutions	33,969,538
– AMCM Monetary Bills	955,595
– Loans and advances to customers	21,484,769
– Certificate of Indebtedness of Macau SAR	(990,754)
– Other assets	668,895
	<hr/>
	56,088,043
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Net cash inflow/(outflow) from operating liabilities:	
– Amounts due from financial institutions	(78,848,849)
– Customers deposits	27,127,210
– Bank notes of Macau SAR in circulation	1,089,636
– Other liabilities	(790,525)
– Certificates of deposit issued	9,246,718
	<hr/>
	(42,175,810)
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Net cash inflow from operating activities	19,439,871
Macau Complementary Tax refund	216,579
Macau Complementary Tax paid	(629,932)
	<hr/>
	19,026,518
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Bank of China Limited, Macau Branch
Cash Flow Statement (Continued)
For the year ended 31 December 2016

	<i>2016</i>
	<i>MOP'000</i>
Net cash inflow from operating activities	<u>19,026,518</u>
Investing activities	
Dividends received	721
Proceeds from sale of property and equipment	2
Interest received from held-to-maturity debt investments and available-for-sale financial assets	456,617
Purchase of property and equipment	(134,599)
Purchase of held-to-maturity debt investments and available-for-sale financial assets	(13,892,654)
Proceeds from sale of held-to-maturity debt investments and available-for-sale financial assets	<u>10,880,950</u>
Net cash outflow from investing activities	<u>(2,688,963)</u>
Financing activity	
Funds remitted to Head Office	<u>(5,204,981)</u>
Net cash outflow from financing activity	<u>(5,204,981)</u>
Increase in cash and cash equivalents	11,132,574
Cash and cash equivalents as at 1 January	<u>127,866,398</u>
Cash and cash equivalents as at 31 December	<u><u>138,998,972</u></u>
 The following table is the analysis cash and cash equivalents of the branch:	
Cash in hand	<u>4,623,769</u>
Repayable on demand	7,996,702
- Balance with AMCM	<u>36,651,674</u>
- Balance with financial institutions	<u>44,648,376</u>
Balance with financial institutions with original maturities	<u>89,726,827</u>
Cash and cash equivalents which are readily convertible into cash as at 31 December	<u><u>138,998,972</u></u>

Bank of China Limited, Macau Branch

Off-Balance-Sheet Exposures

As at 31 December 2016

As at 31 December 2016, 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>2016</i>
	<u><i>MOP'000</i></u>
Direct credit substitutes	23,065,833
Transaction-related contingencies	11,562,696
Trade-related contingencies	2,549,212
Other commitments	89,685,263
	<u><u>126,863,004</u></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>2016</i>			
			<u><i>Fair Value</i></u>	
	<i>Notional</i>	<i>Credit risk</i>		
	<i>amount</i>	<i>weighted</i>	<i>Assets</i>	<i>Liabilities</i>
	<u><i>MOP'000</i></u>	<u><i>MOP'000</i></u>	<u><i>MOP'000</i></u>	<u><i>MOP'000</i></u>
Exchange rate derivatives	110,108,912	2,244,519	2,596,161	1,814,656
Interest rate derivatives	1,767,786	22,786	32,192	26,529
Equity derivatives	42,757	643	833	806
	<u>111,919,455</u>	<u>2,267,948</u>	<u>2,629,186</u>	<u>1,841,991</u>

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

Accounting Policies

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

These financial statements have been prepared in accordance with the requirements as set out in 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, and 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.

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

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 on associate companies over which the Branch has 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 or 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.

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

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. Other than specific provisions, general provisions for loans are made at 1% according to the regulation of AMCM. 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.

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2016
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
- Renovations and deferred maintenance	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.

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2016
Accounting Policies (Continued)

(h) *Impairment(Continued)*

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

(i) *Translation of foreign currencies*

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

(j) *Employee benefits*

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

(k) *Income recognition*

(i) Interest income

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

Interest income arising from held-to-maturity debt securities, 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.

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

Accounting Policies (Continued)

(l) *Taxation*

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

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

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

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

(m) *Derivatives*

Derivatives include mainly forward, swap and option transactions undertaken by the Branch in the foreign exchange, 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 (original maturities which are within three months) 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.

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2016
Accounting Policies (Continued)

(q) *Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Branch. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(r) *Related parties*

A party is considered as related to the Branch if that person or that entity:

- (i) is the Branch's associate, and any party that exerts control over the Branch;
- (ii) is the Head Office and 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 Head Office and 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.

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

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

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.

Bank of China Limited, Macau Branch
 Disclosure of Financial Information
 As at 31 December 2016
 Related Parties Transactions

(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>2016</i>
	<i>MOP'000</i>
As at 1 January	11,762
Repayment during the period	<u>(2,775)</u>
As at 31 December	<u><u>8,987</u></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.

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2016
Related Parties Transactions (Continued)

(b) *Transactions between group members (continued)*

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

	<i>Amounts with Head Office and overseas branches MOP'000</i>	<i>Amounts with associate MOP'000</i>	<i>Amounts with group members MOP'000</i>	<i>Total MOP'000</i>
2016				
Interest income	2,346,492	-	302,824	2,649,316
Interest expense	(1,936,402)	(3)	(135,274)	(2,071,679)
Management fee	(66,071)	-	(12,200)	(78,271)
Agency fee	-	-	150,999	150,999
Other fee and commission expense	(64,174)	-	-	(64,174)

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>
2016				
Amounts due from financial institutions	137,224,243	-	51,651,269	188,875,512
Amounts due to financial institutions	(69,135,624)	-	(26,594,278)	(95,729,902)
Customer deposits	-	(7,892)	(1,205,972)	(1,213,864)
	68,088,619	(7,892)	23,851,019	91,931,746

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

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.

Bank of China Limited, Macau Branch
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As at 31 December 2016
Credit Risk Management (Continued)

(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.

<i>Region</i>	<i>2016</i>		
	<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	219,067,730	5,579,372	652,685
<i>in which:</i>			
- banks	-	-	-
- governments	-	5,579,372	-
- public sector entities	-	-	-
- others	219,067,730	-	652,685
Hong Kong SAR	65,953,333	4,300,886	817,218
<i>in which:</i>			
- banks	-	4,298,826	811,929
- governments	-	-	-
- public sector entities	-	-	-
- others	65,953,333	2,060	5,289
Mainland China	68,827,262	7,302,881	1,159,065
<i>in which:</i>			
- banks	-	4,453,076	302,479
- governments	-	-	-
- public sector entities	-	-	-
- others	68,827,262	2,849,805	856,586
Others	22,910,294	11,352,821	218
<i>in which:</i>			
- banks	479,262	1,957,328	-
- governments	-	7,984,580	-
- public sector entities	-	-	-
- others	22,431,032	1,410,913	218
Total	376,758,619	28,535,960	2,629,186

Bank of China Limited, Macau Branch
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 As at 31 December 2016
 Credit Risk Management (Continued)

(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>2016</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	160,393,092	463,426	370,482
Hong Kong SAR	46,981,278	248	247
Mainland China	58,771,475	108,184	85,517
Others	20,927,511	-	-
Total	<u>287,073,356</u>	<u>571,858</u>	<u>456,246</u>

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

Bank of China Limited, Macau Branch
 Disclosure of Financial Information
 As at 31 December 2016
 Credit Risk Management (Continued)

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

	2016		
	<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	81,104	-	-
Mining industries	23,963	-	-
Manufacturing industries			
- Foodstuffs and beverages	938,085	-	-
- Clothing	253,283	7,425	7,425
- Other textile productions	129,533	-	-
- Leather articles	2,100	-	-
- Wood and furniture	407,348	-	-
- Paper, printing and publishing	2,580,860	-	-
- Toys	15,753	-	-
- Machinery and other electrical and electronic goods	5,979,997	39,280	9,311
- Artificial flowers	704	-	-
- Other manufacturing industries (not mentioned above)	10,544,178	-	-
Electricity, gas and water	5,081,891	23,262	23,262
Construction and public works	42,516,675	-	-
Wholesale and retail trade	38,217,205	228,783	225,538
Restaurants, hotels and similar	14,304,910	-	-
Transport, warehousing and communications	11,606,453	82,530	82,530
Non-monetary financial institutions	43,531,633	-	-
Exhibition and conference	14,786	-	-
Education	845,256	-	-
Information technology	259,851	-	-
Other industries	13,602,851	88,259	85,911
Personal loans			
- Personal housing loans	64,691,297	76,203	14,293
- Credit card balances (interest bearing components)	137,451	12,848	5,139
- Car loans	15,682	2,393	1,191
- Other personal loans	31,290,507	10,875	1,646
	<u>287,073,356</u>	<u>571,858</u>	<u>456,246</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.

Bank of China Limited, Macau Branch
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As at 31 December 2016
Credit Risk Management (Continued)

(iv) *Maturity analysis on assets and liabilities*

As at 31 December 2016

	<i>Maturity date of financial instruments</i>						<i>Total</i>
	<i>On Demand</i>	<i>Less than 1 month</i>	<i>Between 1 to 3 months</i>	<i>Between 3 to 12 months</i>	<i>Between 1 to 3 years</i>	<i>Over 3 years</i>	
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
Financial assets							
Cash in hand	4,623,769	-	-	-	-	-	4,623,769
Amounts due from banks	44,648,376	71,396,516	43,619,360	30,515,503	12,380,935	1,030,000	203,590,690
AMCM Monetary Bills	-	699,739	1,397,944	3,481,689	-	-	5,579,372
Held-to-maturity debt securities	-	-	-	-	-	2,060	2,060
Available-for-sale financial assets	-	-	1,260,980	7,470,664	8,764,297	5,458,587	22,954,528
Loans and advances to customers	-	9,752,696	4,977,256	38,959,677	76,941,333	156,442,394	287,073,356
	<u>49,272,145</u>	<u>81,848,951</u>	<u>51,255,540</u>	<u>80,427,533</u>	<u>98,086,565</u>	<u>162,933,041</u>	<u>523,823,775</u>

Bank of China Limited, Macau Branch
 Disclosure of Financial Information
 As at 31 December 2016
 Credit Risk Management (Continued)

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

As at 31 December 2016 (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>	<i>MOP'000</i>
Financial liabilities							
Deposits and balances of banks and financial institutions	5,670,691	24,961,486	451,857	2,530,788	-	-	33,614,822
Deposits from non-bank customers	134,343,426	53,013,142	66,904,273	48,560,471	1,487,407	-	304,308,719
Deposits from public sector entities	3,508,425	7,802,240	33,176,452	24,367,486	-	-	68,854,603
Deposits from associated companies	7,892	-	-	-	-	-	7,892
Deposits from head office and overseas branches	18,658,649	6,164,514	6,712,281	8,195,380	16,455,376	12,949,424	69,135,624
Certificates of deposit issued	-	-	8,281,136	9,925,007	13,948,727	2,816,516	34,971,386
	<u>162,189,083</u>	<u>91,941,382</u>	<u>115,525,999</u>	<u>93,579,132</u>	<u>31,891,510</u>	<u>15,765,940</u>	<u>510,893,046</u>

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

Credit Risk Management (Continued)

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.

Bank of China Limited, Macau Branch
 Disclosure of Financial Information
 As at 31 December 2016
 Credit Risk Management (Continued)

(v) *Overdue loans and advances to customers*

	<u>2016</u>	
	<u>MOP'000</u>	<u>% of total loans</u>
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	84,042	0.03%
- Between 3 to 6 months	48,623	0.02%
- Between 6 to 12 months	82,765	0.03%
- Over 1 year	356,428	0.12%
	<u>571,858</u>	<u>0.20%</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>111,875</u>	
Specific provision made on overdue loans and advances	<u>456,246</u>	

(vi) *Overdue other assets*

	<u>2016</u>	
	<u>MOP'000</u>	<u>% of total other assets</u>
Other assets which have been overdue:		
- Between 3 to 6 months	1,220	0.16%
- Between 6 to 12 months	1,723	0.23%
- Over 1 year	2,082	0.27%
	<u>5,025</u>	<u>0.66%</u>
Specific provision made on overdue other assets	<u>3,248</u>	

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

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

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.

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

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.

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

Foreign Exchange Risk Management

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. 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>2016</i>
	<u><i>MOP'000</i></u>
HKD	22,176,274
USD	(74,967)
RMB	4,684
Others	
Long Position	2,624
Short Position	(3,547)

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

	<i>2016</i>
	<u><i>MOP'000</i></u>
HKD	
Spot assets	181,565,195
Spot liabilities	(191,657,385)
Forward purchases	34,126,282
Forward sales	(1,857,745)
Net option position	(73)
Net long/(short) position	<u><u>22,176,274</u></u>

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2016

Liquidity Risk Management

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

	<i>2016</i>
	<i>MOP'000</i>
Average minimum weekly amount of cash in hand	7,830,954
Average weekly amount of cash in hand	12,726,972

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

(ii) Average liquidity ratio

	<i>2016</i>
1 month current ratio	48%
3 months current ratio	54%

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

(iii) Average solvency assets

	<i>2016</i>
	<i>MOP'000</i>
Solvency assets	145,328,235
Underlying liabilities	389,909,698
Ratio of solvency assets to underlying liabilities	37%

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.

Bank of China Limited, Macau Branch
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Other Information

(a) *Operating lease commitments*

Non-cancellable operating leases are payable as follows:

	<i>2016</i> <i>MOP'000</i>
Less than 1 year	30,332
Between 1 to 5 years	38,170
Over 5 years	24,102
	<u>92,604</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.