

Bank of China Limited,
Macau Branch

Disclosure of Financial Information

31 December 2018

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2018

Summary of 2018 Management Report

2018 was the 40th anniversary of China's Economic Reform and Opening-up. The year also saw some major changes in global economy and trade pattern. Facing the complex and varied internal and external environment, Bank of China Macau Branch has completed a major upgrade of its core banking system, achieved a new level in strategic layout, technology, workforce development, corporate culture, business performance, inclusive finance and other aspects, fulfilling its social responsibilities while creating good economic benefits.

Bank of China Macau Branch focused on "Reform, Development and Stability". In terms of business development, we continue in promoting the transformation of personal banking and structure of sub-branches. The corporate banking has developed steadily, and the overseas corporate banking service platform has achieved initial results. Steadily advancing in the business of financial markets and financial institutions, the linkage with institutions within the Greater Bay Area has strengthened with good market reputation. In terms of integrating into the construction of the Greater Bay Area and the development of the featured finance, we have issued the "Bonds of Guangdong-Hong Kong-Macao Greater Bay Area", and create lots of "First" in Macau as well as the international bonds issuing history. Appointed by the People's Bank of China as one of participants in the RMB cross-border payment system, we opened the first RMB participating bank account in Macao successfully and established an asset trading platform for Portuguese-speaking countries. In terms of operation and management, we restructured our organizational to enhance our financial service capability, improve business response to the market, and translated the advantage of upgraded core banking system to business advantages, and continuously improve the customer experience with financial service we provide for both Macao residents and tourists.

Bank of China Macau Branch actively fulfills its social responsibilities and continuously promotes the development of inclusive finance in Macao. We focus on customer experience and put great emphasis on developing and providing banking services on mobile terminals, launched a series of products such as BOC "Payment Integration". In addition, we successfully hosted a series of philanthropic events, such as "BOC Charity Walk", assisted Macao public welfare organizations and social service agencies with practical actions to deliver positive effects.

In 2019, Bank of China Macau Branch will follow the "Outline of Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area", and take the initiative to help Macao integrate itself into China's overall development. We will continue providing quality financial services for the general public, firmly develops featured finance to support the economic diversification, and maintains the economic and financial stability of Macao SAR. We will strive to achieve more as a tribute to the 70th anniversary of founding of the People's Republic of China and the 20th anniversary of the establishment of the Macao SAR.

Bank of China Macau Branch
General Manager
Li Guang
1 April 2019

Independent Auditor's Report on the Summary 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 financial statements of Bank of China Limited, Macau Branch for 2018 in accordance with Auditing Standards and Technical Auditing Standards of the Macao Special Administrative Region. In our auditor's report dated 1 April 2019, we expressed an unmodified opinion on these financial statements.

The audited financial statements referred to above comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in operating fund and reserves and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The accompanying summary financial information set out on pages 3 to 6 prepared by the management is a summary of the audited financial statements. In our opinion, the summary financial information is consistent, in all material respects, with the audited financial statements.

For a better understanding of the financial position and financial performance of Bank of China Limited, Macau Branch and the scope of our audit, the summary financial information should be read in conjunction with the audited financial statements and our independent auditor's report.

Bao, King To
Registered Auditor
Ernst & Young

Macao
1 April 2019

Bank of China Limited, Macau Branch
Summary Financial Information
Balance Sheet
As at 31 December 2018

Assets	<i>Amounts MOP'000</i>	<i>Reserves, depreciation and impairments MOP'000</i>	<i>Net Amount MOP'000</i>
Cash	5,247,735	-	5,247,735
Deposits at AMCM	12,146,685	-	12,146,685
Certificates of indebtedness of Macau SAR	9,456,399	-	9,456,399
Accounts Receivable	487,818	-	487,818
Current deposits at other local credit institutions	92,995	-	92,995
Current deposits at other overseas credit institutions	41,236,704	-	41,236,704
Loans and advances	342,822,992	610,364	342,212,628
Placement to local credit institutions	24,115,669	-	24,115,669
Call and fixed deposits at overseas credit institutions	172,334,448	-	172,334,448
Shares, bonds and equities	46,201,533	-	46,201,533
Debtors	1,985,537	-	1,985,537
Other investments	11,158,857	-	11,158,857
Financial investments	104,717	-	104,717
Properties	1,127,086	570,284	556,802
Equipments	1,270,597	1,028,080	242,517
Deferred expenses	347,247	338,362	8,885
Construction in progress	20,111	-	20,111
Other fixed assets	311	311	-
Internal and adjustment accounts	5,363,922	-	5,363,922
TOTAL	675,521,363	2,547,401	672,973,962

Bank of China Limited, Macau Branch
 Summary Financial Information
 Balance Sheet (Continued)
 As at 31 December 2018

Liabilities	<i>Sub-total</i> <i>MOP'000</i>	<i>Total</i> <i>MOP'000</i>
Bank notes of Macau SAR in circulation		9,664,527
Current deposits	149,943,725	
Fixed deposits	274,830,019	424,773,744
Deposits from public sector		91,727,978
Amounts due to local credit institutions	4,777,974	
Amounts due to overseas credit institutions	89,985,768	
Debt securities issued	24,964,754	
Cheques and bills payable	1,412,486	
Creditors	8,480,394	
Other liabilities	1,278	129,622,654
Internal and adjustment accounts		7,027,439
Provision		3,719,951
Operating funds		1,032,600
Revaluation reserves		(277,196)
Profit for the period		5,682,265
TOTAL		672,973,962

Bank of China Limited, Macau Branch
 Summary Financial Information
 Income Statement
 For the year ended 31 December 2018

Income Statement			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Operating costs	10,367,531	Operating income	16,863,564
Personnel expenses		Income from banking services	1,451,138
Staff costs	1,635,973	Other operating income	100,452
Staff benefits	128,231	Income from securities and financial investment	1,845,497
Supplies by third party	60,646	Other banking income	39,466
Services provided by third party	425,624	Non operating income	75,683
Other banking expenses	866,474		
Tax expenses	12,173		
Non operating expenses	4,585		
Depreciation expenses	197,141		
Provision	241,834		
Operating profit	6,435,588		
TOTAL	20,375,800	TOTAL	20,375,800

Bank of China Limited, Macau Branch
 Summary Financial Information
 Income Statement (Continued)
 For the year ended 31 December 2018

Profit and loss account			
Debit	<i>Amount</i> <i>MOP'000</i>	Credit	<i>Amount</i> <i>MOP'000</i>
Loss from prior years	205,029	Operating profit	6,435,588
Tax on profit	763,591	Income from previous years	10,215
Profit	5,682,265	Special profit	53
		Provision written off	205,029
TOTAL	6,650,885	TOTAL	6,650,885

Approved and authorised for issue by the management of the Branch on 1 April 2019

Li Guang

General Manager

Bank of China Limited, Macau Branch
Statement of Cash Flows
For the year ended 31 December 2018

	<u>MOP'000</u>
Operating activities	
Profit before tax	6,445,856
Adjustments for non-cash items:	
– Depreciation	197,141
– Amortisation of discount and premium of debt securities	(375,844)
– Amortisation of discount of debt securities issued	15,755
– Interest income on held-to-maturity debt investments and available-for-sale financial assets	(1,826,982)
– Interest expense on held-to-maturity debt investments and available-for-sale financial assets	41,703
– Interest expense arising from debt securities issued	516,165
– Loss on disposal of property and equipment	(37)
– Dividend income	(721)
– Share of profits of associate	(17,794)
– Provisions for loans and other assets	234,541
	<u>(1,216,073)</u>
	<u>5,229,783</u>
Net cash (outflow) /inflow from operating assets:	
– Amounts due from financial institutions	(7,978,178)
– AMCM Monetary Bills	1,696,449
– Loans and advances to customers	(17,096,522)
– Certificate of Indebtedness of Macau SAR	(663,691)
– Other assets	(1,292,667)
	<u>(25,334,609)</u>
Net cash inflow/(outflow) from operating liabilities:	
– Amounts due from financial institutions	(20,949,537)
– Customers deposits	42,403,367
– Bank notes of Macau SAR in circulation	476,802
– Other liabilities	3,826,510
– Certificates of deposit issued	17,082,492
	<u>42,839,634</u>
Net cash inflow from operating activities	<u>22,734,808</u>
Macau complementary tax paid	(666,010)
Net cash inflow from operating activities	<u><u>22,068,798</u></u>

Bank of China Limited, Macau Branch
Statement of Cash Flows (Continued)
For the year ended 31 December 2018

	<i>MOP'000</i>
Net cash inflow from operating activities	<u>22,068,798</u>
Investing activities	
Dividends received	721
Proceeds from sale of property and equipment	37
Interest received from held-to-maturity debt investments and available-for-sale financial assets	1,139,413
Purchase of property and equipment	(169,460)
Purchase of held-to-maturity debt investments and available-for-sale financial assets	(39,900,738)
Proceeds from sale of held-to-maturity debt investments and available-for-sale financial assets	<u>30,167,109</u>
Net cash outflow from investing activities	<u>(8,762,918)</u>
Financing activity	
Proceeds from issuance of debt securities	16,637,302
Redemption of matured debt securities	(80,664)
Interest paid from debt securities Issued	(389,582)
Funds remitted to Head Office	<u>(4,947,283)</u>
Net cash inflow from financing activity	<u>11,219,773</u>
Increase in cash and cash equivalents	<u>24,525,653</u>
Cash and cash equivalents as at 1 January	<u>130,160,266</u>
Cash and cash equivalents as at 31 December	<u><u>154,685,919</u></u>
The following table is the analysis cash and cash equivalents of the branch:	
Cash in hand	<u>5,247,735</u>
Repayable on demand	
- Balance with AMCM*	12,146,685
- Balance with financial institutions	<u>41,379,695</u>
	53,526,380
Balance with financial institutions with original maturities	<u>95,911,804</u>
Cash and cash equivalents which are readily convertible into cash as at 31 December	<u><u>154,685,919</u></u>

* Balance with AMCM includes the minimum statutory deposit balance with AMCM of MOP 7,091,155 in thousand, which this balance shall not be used in the daily operations of the Branch.

Bank of China Limited, Macau Branch

Off-Balance-Sheet Exposures

As at 31 December 2018

As at 31 December 2018, 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:

	<u>MOP'000</u>
Direct credit substitutes	13,548,644
Transaction-related contingencies	8,970,345
Trade-related contingencies	969,742
Other commitments	74,161,068
	<u>97,649,799</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>Notional amount</i>	<i>Credit risk weighted amount</i>	<i>Fair Value</i>	
			<i>Assets</i>	<i>Liabilities</i>
	<u>MOP'000</u>	<u>MOP'000</u>	<u>MOP'000</u>	<u>MOP'000</u>
Exchange rate derivatives	159,167,494	1,548,496	1,020,060	778,668
Interest rate derivatives	2,167,285	67,963	59,806	56,704
Equity derivatives	19,401	121	234	234
	<u>161,354,180</u>	<u>1,616,580</u>	<u>1,080,100</u>	<u>835,606</u>

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2018

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 2018

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", "available-for-sale debt securities" or "held for trading 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.

Debt securities which have been acquired principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together are classified as held for trading debt securities. These instruments are recognised initially at fair value, with transaction costs recognised in profit or loss, and are subsequently re-measured at fair value. Gains and losses from changes in the fair value of such instruments (excluding the interest component) are reported in net trading gain/loss or net gain/loss on financial instruments designated at fair value through profit or loss. The interest component is recognised as part of interest income.

(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.

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2018

Accounting Policies (Continued)

(c) *Investments (Continued)*

(iii) Certificates of deposit held (Continued)

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.

(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*

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

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.

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2018
Accounting Policies (Continued)

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

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.

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

(e) *Investments in associate*

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

(f) *Property and equipment and depreciation*

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

- Bank premises	2% to 10% per annum
- 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.

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2018
Accounting Policies (Continued)

(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. Contingent rentals are recognised as expenses during the year. For the branch as a lessor, the rent income from operating leases is recognized by using straight line method during the lease period.

(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.

(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.

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2018

Accounting Policies (Continued)

(k) *Income recognition (Continued)*

(i) Interest income (Continued)

Interest income arising from held-to-maturity debt securities, available-for-sale debt securities, held for trading 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)), 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.

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

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2018
Accounting Policies (Continued)

(m) *Derivatives(Continued)*

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) *Debt securities and certificates of deposit in issue*

Debt securities (bonds and commercial paper) and certificates of deposit in issue are carried at amortised cost, net of transaction costs which are amortised through profit or loss over the period on a straight-line basis.

(q) *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.

(r) *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.

Bank of China Limited, Macau Branch
Disclosure of Financial Information
As at 31 December 2018
Accounting Policies (Continued)

(s) *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.

(t) 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

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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 2018
 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:

	<u>MOP'000</u>
As at 1 January	14,426
Additional loans made during the period	3,250
Loans decreased during the period ^(notes 1)	<u>(14,426)</u>
As at 31 December	<u><u>3,250</u></u>

Notes 1: One key management personnel withdrew from managerial positions during the year.

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 2018
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>
Interest income	3,554,132	-	605,413	4,159,545
Interest expense	(1,829,625)	(4)	(393,910)	(2,223,539)
Management fee	(46,001)	-	(16,676)	(62,677)
Agency fee	54	-	140,323	140,377
Other fee and commission income	4,123	-	19,671	23,794
Other fee and commission expense	(43,994)	-	(84,862)	(128,856)

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>
Amounts due from financial institutions	130,394,793	-	49,945,381	180,340,174
Amounts due to financial institutions	(59,683,757)	-	(12,703,534)	(72,387,291)
Customer deposits	-	(4,471)	(5,064,607)	(5,069,078)
	<u>70,711,036</u>	<u>(4,471)</u>	<u>32,177,240</u>	<u>102,883,805</u>

Bank of China Limited, Macau Branch

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As at 31 December 2018

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.

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 Disclosure of Financial Information
 As at 31 December 2018
 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>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	187,363,286	250,570	174,238
Hong Kong SAR	56,257,012	-	-
Mainland China	68,201,570	411,034	410,829
Others	31,001,124	25,298	25,297
Total	342,822,992	686,902	610,364

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
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As at 31 December 2018
Credit Risk Management (Continued)

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

	<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	13,408	321	-
Mining industries	564,648	-	-
Manufacturing industries			
- Foodstuffs and beverages	1,233,464	403,320	403,320
- Clothing	239,146	7,425	7,425
- Other textile productions	17,271	819	328
- Leather articles	6,803	-	-
- Wood and furniture	16,879	-	-
- Paper, printing and publishing	432,271	-	-
- Toys	45,358	-	-
- Machinery and other electrical and electronic goods	9,982,746	-	-
- Artificial flowers	582	-	-
- Other manufacturing industries (not mentioned above)	20,270,350	79	32
Electricity, gas and water	9,251,098	-	-
Construction and public works	38,419,646	74,846	68,663
Wholesale and retail trade	41,473,599	14,472	4,983
Restaurants, hotels and similar	24,019,593	1,331	1,331
Transport, warehousing and communications	8,532,487	-	65,556
Non-monetary financial institutions	50,877,380	25,297	25,297
Exhibition and conference	230,102	-	-
Education	2,366,383	-	-
Information technology	889,810	-	-
Other industries	13,051,622	16,124	1,039
Personal loans			
- Personal housing loans	76,649,565	1,850	-
- Credit card balances (interest bearing components)	208,398	19,162	7,666
- Car loans	5,373	3,104	2,885
- Other personal loans	44,025,010	118,752	21,839
	<u>342,822,992</u>	<u>686,902</u>	<u>610,364</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 2018
Credit Risk Management (Continued)

(iv) *Maturity analysis on assets and liabilities*

	<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 assets							
Cash in hand	5,247,735	-	-	-	-	-	5,247,735
Amounts due from banks	84,234,525	47,306,236	71,086,760	29,366,262	5,045,840	11,585,288	248,624,911
AMCM Monetary Bills	-	-	898,171	397,486	-	-	1,295,657
Held-to-maturity debt securities	-	-	-	-	2,060	-	2,060
Available-for-sale financial assets	-	2,507,806	2,727,899	7,550,148	24,569,168	20,003,309	57,358,330
Loans and advances to customers	1,002,052	6,168,746	13,984,658	50,043,148	105,969,096	165,655,292	342,822,992
	<u>90,484,312</u>	<u>55,982,788</u>	<u>88,697,488</u>	<u>87,357,044</u>	<u>135,586,164</u>	<u>197,243,889</u>	<u>655,351,685</u>

Bank of China Limited, Macau Branch
 Disclosure of Financial Information
 As at 31 December 2018
 Credit Risk Management (Continued)

(iv) *Maturity analysis on assets and liabilities (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	10,978,391	3,823,019	14,143,669	6,240,803	-	-	35,185,882
Deposits from non-bank customers	149,939,253	58,876,312	49,959,717	94,609,313	299,052	-	353,683,647
Deposits from public sector entities	5,693,523	15,881,933	13,222,067	54,464,282	2,466,173	-	91,727,978
Deposits from associated companies	4,471	-	-	-	-	-	4,471
Deposits from head office and overseas branches	7,481,820	6,671,182	12,377,002	20,016,936	8,654,281	4,376,159	59,577,380
Debt securities issued	-	-	1,758,921	-	12,773,116	10,432,717	24,964,754
Certificates of deposit issued	-	11,346,087	9,337,005	47,577,796	2,824,738	-	71,085,626
	<u>174,097,458</u>	<u>96,598,533</u>	<u>100,798,381</u>	<u>222,909,130</u>	<u>27,017,360</u>	<u>14,808,876</u>	<u>636,229,738</u>

Bank of China Limited, Macau Branch

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As at 31 December 2018

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 2018
 Credit Risk Management (Continued)

(v) *Overdue loans and advances to customers*

	<u>MOP'000</u>	<u>% of total loans</u>
Gross loans and advances to customers of which either principal or interest have been overdue:		
- Between 3 to 6 months	24,775	0.01%
- Between 6 to 12 months	130,912	0.04%
- Over 1 year	531,215	0.15%
	<u>686,902</u>	<u>0.20%</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>191,838</u>	
Specific provision made on overdue loans and advances	<u>610,364</u>	

(vi) *Overdue other assets*

	<u>MOP'000</u>	<u>% of total other assets</u>
Other assets which have been overdue:		
- Between 3 to 6 months	504	0.03%
- Between 6 to 12 months	2,319	0.13%
- Over 1 year	4,904	0.27%
	<u>7,727</u>	<u>0.43%</u>
Specific provision made on overdue other assets	<u>6,189</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 2018

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 2018

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

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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:

	<u>MOP'000</u>
HKD	4,868,114
USD	67,074
RMB	30,656
Others	
Long Position	28,978
Short Position	(11,889)

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

	<u>MOP'000</u>
HKD	
Spot assets	209,714,858
Spot liabilities	(248,490,971)
Forward purchases	43,644,233
Net option position	(6)
Net long/(short) position	<u><u>4,868,114</u></u>

Bank of China Limited, Macau Branch

Disclosure of Financial Information

As at 31 December 2018

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 Treasury 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*

	<u>MOP'000</u>
Average minimum weekly amount of cash in hand	9,648,318
Average weekly amount of cash in hand	14,275,937

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

(ii) *Average liquidity ratio*

1 month current ratio	45%
3 months current ratio	51%

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*

	<u>MOP'000</u>
Solvency assets	192,451,466
Underlying liabilities	504,521,485
Ratio of solvency assets to underlying liabilities	38%

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
Disclosure of Financial Information
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Other Information

(a) *Operating lease commitments*

Non-cancellable operating leases are payable as follows:

	<u>MOP'000</u>
Less than 1 year	31,107
Between 1 to 5 years	60,137
Over 5 years	11,396
	<u>102,640</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.