交通銀行
BANK OF COMMUNICATIONS

Bank of Communications Co., Ltd.
Macau Branch

Disclosure of Financial Information

31 December 2020

Summary of the external auditors' report

TO THE MANAGEMENT OF BANK OF COMMUNICATIONS CO., LTD. MACAU BRANCH

The attached summary financial statements of Bank of Communications Co., Ltd Macao Branch(the "Branch") for the year ended 31 December 2020 have been derived from the audited financial statements and the books and records of the Branch for the year ended on the same date. These summary financial statements, which comprise the balance sheet as at 31 December 2020 and the income statement for the year then ended, are the responsibility of the management. Our responsibility is to express an opinion solely to you, as a body, as to whether the summary financial statements are consistent, in all material respects, with the audited financial statements and the books and records of the Branch, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We have audited the financial statements of the Branch for the year ended 31 December 2020 in accordance with Auditing Standards and Technical Standards on Auditing issued by the Government of the Macao Special Administrative Region and have issued an auditor's report with an unqualified opinion on these financial statements dated 22 March 2021.

The audited financial statements comprise the balance sheet as at 31 December 2020, and the income statement, statement of changes in reserve and cash flow statement for the year then ended, and a summary of significant accounting policies and explanatory notes.

In our opinion, the summary financial statements are consistent, in all material respects, with the audited financial statements and the books and records of the Branch.

For a better understanding of the financial position of the Branch and its operating results and of the scope of our audit, the attached summary financial statements should be read in conjunction with the audited financial statements and the independent auditor's report thereon.

Ng Wai Ying
CPA
PricewaterhouseCoopers

Macao, 22 March 2021

Summary of the management report

The year 2020, having faced the challenges of a sudden epidemic and the external economic environment modifications, the branch persevered on the path of "paying equal attention to development and management, and balancing development against risks" and persisted in both epidemic prevention and control and business development. By strengthening the level of risk control, consolidating its client's base and promoting the business transformation, achieved a better economy of scale and remarkable results in the real economy, with all the staff's collective efforts and the substantial support from various sectors in Macau. At the end of the year 2020, the branch total asset reached MOP103,400,000,000.00, and achieved a profit after tax of MOP 696,000,000.00. Asset quality remained stable.

Intending to "Integrate into Macau and Serve Macau" and in pursuing the entrepreneurial spirit of "commitment and entrepreneurship, responsibility and consolidation, innovation, and overcoming", the branch aligned its business development to "serve customers of the whole banking group, strengthen both foreign and domestic interactions, actively support Macau enterprises, and provide outstanding wealth management", establish long-term cooperative relations with large local business groups, vigorously supporting the socio-economic development of Macau, accelerating the expansion of cross-border interactions and inter-bank business through the favorable regional location of Macau, emphasizing the characteristics of wealth management and provide quality financial services for local customers strengthened its management approach by abiding by the principles "Compliance Management and Healthy Growth", having strictly complied with legal requirements and meticulously managed its assets.
Apart from business, the branch continued to strengthen its bonds with the community by actively participating in charity events and making the commitment to corporate social responsibility, donating money and materials to support epidemic prevention and control, and providing convenient measures for customers affected by the epidemic.

In 2021, the ***Bank of Communications Co., Ltd. Macau Branch*** will continue to expand its business with high quality and sustainable development, in response to the support of the community, and, actively in compliance with Macau SAR Government policy to promote the development of modern financial system models, support the construction of Greater Guangdong-Hong Kong-Macao Bay Area and the integration of Macau into the national development to contribute to the development of economic diversification and the social prosperity of Macau.

Bank of Communications Co., Ltd. Macau Branch
The Branch President
Huang Bin
22 March 2021

Balance Sheet as at 31 December 2020

(Expressed in thousands of Macau Patacas)

Assets	Amounts MOP'000	Reserves, depreciation and impairments MOP'000	Net Amount MOP'000
Cash	20,038		20,038
Deposits at AMCM	1,277,432		1,277,432
Accounts Receivable	9,131		9,131
Current deposits at other local credit institutions	136,697		136,697
Current deposits at other overseas credit institutions	4,978,911		4,978,911
Loans and advances	69,071,049	48,065	69,022,984
Placement to local credit institutions	2,395,560		2,395,560
Call and fixed deposits at overseas credit institutions	17,259,873		17,259,873
Shares,bonds and equities	34,391,601		34,391,601
Debtors	4,215		4,215
Properties	11,693	1,520	10,173
Equipments	10,107	6,525	3,582
Other fixed assets	5,942	2,793	3,149
Internal and adjustment accounts	868,532		868,532
TOTAL	**130,440,781**	**58,903**	**130,381,878**

Balance Sheet as at 31 December 2020(continued)

(Expressed in thousands of Macau Patacas)

Liabilities	Sub-total MOP'000	Total MOP'000
Current deposits	1,367,040	
Fixed deposits	45,656,309	
Deposits from public sector	21,462,647	68,485,996
Amounts due to local credit institutions	6,866,124	
Amounts due to overseas credit institutions	49,117,840	
Cheques and bills payable	2,205	
Creditors	3,080	
Other liabilities	-	55,989,249
Internal and adjustment accounts		1,535,583
Provision		474,024
Capital		480,086
Other reserve		497,103
Profit and Loss accumulated balance		2,224,096
Profit and Loss for the period		695,741
TOTAL		**130,381,878**

Profit and Loss Account
For the period of 1 January to 31 December 2020

(Expressed in thousands of Macau Patacas)

Income Statement

Debit	Amount MOP'000	Credit	Amount MOP'000
Operating costs	2,065,567	Operating income	2,824,071
Personnel Expenses		Income from banking services	226,861
Staff costs	93,290	Other operating income	17,659
Staff benefits	4,600	Income from securities and financial investment	13,893
Other staff costs	21		
Supplies by third party	466	Other banking income	8
Services provided by third party	42,117		
Other banking expenses	54,730		
Tax expenses	-		
Non-operating expenses	4,197		
Depreciation expenses	2,379		
Provision	48,065		
Operating profit	767,060		
TOTAL	**3,082,492**	**TOTAL**	**3,082,492**

Profit and Loss Account
For the period of 1 January to 31 December 2020 (continued)

(Expressed in thousands of Macau Patacas)

Profit and Loss Account

Debit	Amount MOP'000	Credit	Amount MOP'000
Tax on profit	93,977	Operating profit	767,060
Profit	695,741	Write-back of provision	22,658
TOTAL	**789,718**	**TOTAL**	**789,718**

Cash Flow Statement
For the period of 1 January to 31 December 2020

(Expressed in thousands of Macau Patacas)

	31 December 2020 MOP'000
Cash flows from operating activities	
Profit before income tax	789,718
Impairment losses on loan and advance to customers	25,407
Depreciation	2,379
Loss from disposal of property, plant and equipment	-
Cash inflow before change in working capital	817,504
(Increase)/decrease in minimum deposits with AMCM	(320,659)
(Increase)/decrease in placements with banks and other financial institutions with original maturity over 3 months	(1,490,891)
(Increase)/decrease in financial instruments at fair value through profit and loss	51,596
(Increase)/decrease in loans and advances to customers	(19,612,436)
(Increase)/decrease in other assets	38,188
Increase/(decrease) in deposit from banks and other financial institutions	8,044,219
Increase/(decrease) in deposits from customers	9,821,048
Increase/(decrease) in Certificates of Deposit issued	8,547,951
Increase/(decrease) in other liabilities	66,231
Cash inflow / (outflow) from operating activities before income tax	5,962,751
Macau complementary tax paid	(76,080)
Cash inflow/(outflow) from operating activities	5,886,671
Cash flows from investing activities	
Purchase of investment in securities	(11,061,655)
Proceeds from sale/redemption of investment in securities	10,541,989
Purchase of property, plant and equipment	(1,910)
Cash outflow from investing activities	(521,576)
(Decrease)/increase in cash and cash equivalents	5,365,095
Cash and cash equivalents at 1 January	5,625,381
Cash and cash equivalents at the end of the period	**10,990,476**

Cash Flow Statement
For the period of 1 January to 31 December 2020(continued)

(Expressed in thousands of Macau Patacas)

	31 December 2020 MOP'000
Analysis of the balances of cash and cash equivalents	
Cash	20,038
Call deposits	5,115,608
Placement with banks and other financial institutions with original maturity of less than 3 months	5,374,962
Deposits with AMCM in excess of minimum statutory requirement	479,868
	10,990,476

Off-balance-sheet exposures

(Expressed in thousands of Macau Patacas)

As at 31 December 2020, the Branch had the following contingent liabilities and Derivative transactions :

(i) Contingent liabilities and commitments:

	31 December 2020 MOP'000
A. Contingent liabilities	
Letter of credit and bank acceptance	599,601
Credit guarantee	7,744,316
Undrawn commitment	10,521,762
Accrued interest from non-performing loans	25,041
Unfunded trade payables	-
Funded Participation	-
	18,890,720
B. Bills collection	
Bills collection payable	-

(ii) Derivatives transactions

	31 December 2020			
	Notional Amount MOP'000	Credit Risk Weighted amount MOP'000	Fair Value Assets MOP'000	Fair Value Liabilities MOP'000
Interest rate contracts	8,215,972	10,051	1,497	52,771
Exchange rate contracts	26,448,738	71,410	3,685	15,333
	34,664,710	**81,461**	**5,182**	**68,104**

The weighted amounts of Interest rate contracts and Exchange rate contracts as calculated in accordance with notice 011/2015 AMCM.

Significant Accounting Policies

1. Basis of preparation

The financial statements of the Branch are prepared in accordance with Financial Reporting Standards issued by the Government of Macao Special Administrative Region under Administrative Regulation No.25/2005 on 9th December 2005 ("MFRS").

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statement are disclosed in note 3.

These financial statements have been prepared under historical cost convention, except for financial asset or liabilities at fair value through profit and loss.

i) New standards and interpretations not yet adopted

Effective from 28 March 2020, Financial Reporting Standards issued by the Government of Macau under Administrative Regulation No. 25/2005 on 9 December 2005 ("MFRS") were replaced by Financial Reporting Standards issued by the Directive of Secretaria para a Economia e Finanças No. 44/2020 on 17 March 2020 ("New MFRS"). The New MFRS is mandatory for adoption from the annual period beginning 1 January 2022. The company/group has not early adopted the New MFRS in preparing the financial statements. None of the standards included in the New MFRS is expected to have a significant effect on the financial statements of the Branch except the following as set out below:

IAS 1 in the New MFRS

IAS 1, 'Presentation of Financial Statements' in the New MFRS requires to present all non-owner changes in equity either in one statement of comprehensive income or in two statements. The standard also requires the presentation of a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. These impact presentation aspects.

Significant Accounting Policies (Continued)

1. Basis of preparation (Continued)

i) New standards and interpretations not yet adopted (Continued)

<u>IFRS 9</u>

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The other financial assets held by the Branch include:
- debt instruments currently classified as AFS
- debt investments currently measured amortised cost

The hedge accounting requirements align closer with the risk management practices of the Branch. As the standard introduces more principle-based approach, the Branch expects more hedging relationships may meet the requirements of hedge accounting. When IFRS9 becomes effective, this Branch will assess the effectiveness of the current hedging relationship and expects the current hedging relationship could continue to meet the requirements of IFRS9.

Changes in the fair value of foreign currency forward contracts and changes in the time value of option contracts will be deferred to the hedging reserve in equity in the future. The deferred amount will be confirmed when the transaction occurs for the related hedging transaction.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Branch’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Significant Accounting Policies (Continued)

1. Basis of preparation (Continued)

i) New standards and interpretations not yet adopted (Continued)

IFRS 15

IFRS 15, 'Revenue from contracts with customers' will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Branch is yet to assess the full impact of above standards and intends to adopt the New MFRS no later than the accounting period beginning on or after 1 January 2022.

2. Interest income, fee and commission income

Interest income is recognised on an effective interest rate basis. Interest income is not recognised on non-accrual loans. Non-accrual loans represent advances to customers which are overdue for more than three months or advances to customers which are overdue for less than three months but the management have doubt on the ultimate recoverability of principal or interest in full. Fee and commission income, ie administrative fee, asset management fee and custodian service fee, is recognised over the period during which the related service is provided or credit risk is undertaken.

3. Deposits from customers

Deposits are recorded at cost or amortised cost. Any differences between the net deposit amount after deduction of transaction cost is reflected on the income statements in applying the effective interest rate over the period.

4. Loans and advances to customers

Loan and advances to customers are reported on the balance sheet at the principal amount outstanding net of provision for bad and doubtful advances and other accounts. All advances are recognised when cash is advanced to borrowers.

Significant Accounting Policies (Continued)

5. Provision for bad and doubtful debts

Provisions are made against specific advances as and when the management have doubts on the ultimate recoverability of the principal or interest in full. Specific provision is made to reduce the carrying value of advances to customers, net of any collateral, to the expected net realisable value based on the management‘s assessment of the potential losses on those identified advances, and with reference to the requirements of Autoridade Monetaria de Macau (“AMCM”).

In addition, amounts have been set aside as a general provision for advances and other accounts. Both specific and general provisions are deducted from “Loans and advances from customers” in the balance sheet.

When there is no realistic prospect of recovery, the outstanding loan balances are written off.

6. Salary and bonuses

The Branch recognizes salary when the staff has fulfilled the obligation, and recognises bonus expenses and accruals with assessment conducted based on financial and non-financial indicators.

7. Investment in securities

Invest securities are held–to-maturity and available-for-sale bonds.

Held-to-maturity investments include debt securities for which the Branch has the intention and ability to hold to maturity. Investments in listed debt securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for other than temporary diminution in value. Provisions are made for the amount of the carrying value which the Branch does not expect to recover and are recognised as an expense in the income statement as they arise. The amortisation of premiums and discounts arising on acquisition of these securities is included as part of interest income using effective interest method.

Significant Accounting Policies (Continued)

7. Investment in securities (Continued)

Available-for-sale investments include debt securities are stated at the lower of cost and market value at the balance sheet date, and adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity and impairment. Any unrealised gain or loss are recognised in the securities revaluation reserve in statement of changes in equity.

8. Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure relating to fixed assets that has already been recognised is added to the carrying amount of the asset only when it is probable that the future economic benefit associated with the item can be measured reliably. Other subsequent expenditure is recognised as maintenance expense in the income statement during the financial year in which it is incurred.

Leasehold improvement, furniture and fixture	5 years
Office and computer equipment	4 years
Motor Vehicles	5 years
Property	50 years

Impairment assessment is carried out at each balance sheet date, by referring to internal and external indicators on such occasion. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Significant Accounting Policies (Continued)

9. Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognised as an expense in the period the termination takes place.

10. Foreign currency treatment

(i) Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the Branch operates. The financial statements are presented in Macao Official Patacas ("MOP"), which is the functional currency of the Branch.

(ii) Foreign currency transactions and balances

Transactions in foreign currencies are measured using exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into MOP at the exchange rate at the balance sheet date. Foreign exchange differences arising from this translation are recognised in the income statement.

11. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash and balances with banks, deposits with AMCM and AMCM Monetary bills.

Significant Accounting Policies (Continued)

12. Contingent liabilities

Contingent liability is a possible obligation arises from past events, where there are one or several uncertain future events that the Branch cannot be certain. Contingent liability also exists when a present obligation exists as a result from past event, where the amount cannot be measured reliably, thus cannot be estimated and reflect through the income statement.

Provisions are not recognised on continent liabilities, but are disclosed in the financial statements. If the outflow of resources becomes probably, provisions will be recorded.

13. Provision

Provisions are recognised when the Branch has a present legal or construction obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect of any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in provision due to passage of time is recognised as interest expense.

14. Current and deferred tax

Current income tax for current and prior periods is recognised at the amount expected to be paid or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Significant Accounting Policies (Continued)

14. Current and deferred tax (Continued)

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

The amount of deferred tax assets recognised takes into account the likelihood the amount can be used to offset payables for future profits.

15. Pension fund liability

The Branch defines pension fund contribution plan to its employees. Each employee within the plan contributes 5% of salary, whereas the Branch contributes 5% to 10% contributions, according to the years of services of individual employee. The contribution made by the Branch is recorded in the income statement of the year of contribution.

16. Related Parties

Within the context of the financial statements, a related party refers to an entity that the Branch has control over, both directly or indirectly, or has the authority to exert influence over the financial or operation of that entity, or vice versa. A related party can be an individual or an entity.

17. Hedge Accounting

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Significant Accounting Policies (Continued)

17. Hedge Accounting (Continued)

The Branch designates certain derivatives as hedging instruments. At the inception of the hedge, the Branch documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Branch documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

The changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

18. Critical accounting estimates and assumptions

The Branch’s accounting policies and use of estimates are integral to the reported results. Certain accounting estimates require management’s judgement in determining the appropriate methodology for valuation of assets and liabilities. Procedures are in place to ensure that methodologies are reviewed and revised as appropriate. The Branch believes its estimates for determining the valuation of its assets and liabilities are appropriate.

18.1 Impairment of investment in securities

The Branch assesses impairment loss for its investment securities. Assessment includes the risk indicators and performance of the bonds, such as external credit rating, market value etc. The Branch evaluates the possibility of impairment by taking into consideration the market performance, repayment behaviour of the bond issuers and related assets performance.

Significant Accounting Policies (Continued)

18. Critical accounting estimates and assumptions (Continued)

18.2 Income taxes

The Branch is subject to income tax in Macao. Significant judgement is required in determining the amount of the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination are made.

18.3 Provision for loan and advances

The Branch periodically reviews its loan portfolios to assess the existing specific and general provisioning level. Specific provisions are made against individual loans and advances as and when the management has doubts on the ultimate recoverability of the principal or interest in full. Specific provision is made to reduce the carrying value of advances to customers, net of any collateral, to the expected net realisable value based on management assessment of the potential losses on those identified advances, and with reference to the requirements of AMCM. On the assessment of general provision, the Branch makes reference to the requirements of AMCM and applies judgement (such as making reference to the external credit environment) to determine the appropriate level of general provision.

18.4 Effectiveness on hedging accounting

The Branch uses interest rate swaps to hedge the changes in fair value caused by changes in interest rates. The Branch designated some of the purchased interest rate swap contracts as hedging instruments. These hedging instruments have the same terms on interest rate, maturity and currency of the corresponding hedged items. The management regularly reviews the validity of the hedging relationship. The management of the Branch considered that the hedging relationship for the year was highly effective.

Significant Related Party Transactions

(Expressed in thousands of Macau Patacas)

During the period, the Branch entered into transactions with Head Office and other members of the same group in the normal course of its banking business (including lending, placement of inter-bank deposits, deposits and balances with inter-bank, and derivatives instruments).

The Branch has undertaken related party transactions with Head Office and other members of the same group, of which the total income and expense generated from such transactions are summarised as follows:

	31 December 2020
	MOP'000
Income statement items:	
Interest income	679,837
Other income	469,794
Interest expenses	(26)
Other expenses	(397,498)
Head office administration fee	(5,241)

The outstanding amount of related party transactions with Head Office and other members of the same group, as at the end of the reporting period are set out below:

	31 December 2020
	MOP'000
Balance sheet items:	
Placement with banks and other financial institutions	11,671,438
Loan and advances to customers	35,383,663
Other assets	1,686,409
Deposits from banks and other financial institutions	(31,128,316)
Other liabilities	(3,080)

Significant Related Party Transactions (continued)

Transactions with the HongKong and Shanghai Banking Corporation Limited (“HSBC”) as follows:

As at 31 December 2020, HSBC holds 18.70% of total share capital of the Bank of Communications Co., Ltd.

	31 December 2020
	MOP'000
Income statement items:	
Interest income	7
Interest expenses	(281,671)
Fee and commission expenses	(673)

	31 December 2020
	MOP'000
Balance sheet items:	
Placement with banks and other financial institutions	55,909
Deposits from banks and other financial institutions	(1,283,456)
Certificates of deposit	(21,966,690)

Key management personnel

During the year, the Branch entered into transactions with key management personnel of the Branch in the normal course of its banking business including lending and deposits.

	31 December 2020
	MOP'000
Deposit Balance	2,782
Loan Balance	13,046

Unaudited Supplementary Financial Information

Credit Risk

Credit risk is the risk that a borrower or counterparty being unable or unwilling to meet debt service obligations and result in financial loss to the bank. Our head office and Branch will provide, in accordance with their own credit policies and guidelines, proper credit facilities to customers base on the nature, product demand and industry characteristics.

The Branch Credit Risk Management mainly categorize personal and corporate credit. Personal credit includes mortgage loans, personal loans, and personal overdraft facility, etc., while corporate credit includes syndicated loans, bilateral loans, overseas loan under bank guarantee, company overdraft facility, trade finance, bank guarantees and acceptances etc. Base on different types of customers, counterparties or transactions, the Branch will adopt different credit approval and monitoring procedures according to various level of risk. Credit applications will be assessed by an independent and objective audit of credit management department. The credit risk of different customers will be assessed by the risk rating system of head office.

In General, the credit risk rating can be classified into 2 classes：1) Borrower risk rating; and 2) credit business risk rating.

(1) Borrower risk rating is being evaluated base on the possibility of credit default. It applies to all the Branch’s borrower and his/her guarantor. Customer risk rating shall be classified into 18 grades.

(2) Credit business risk will grade the possibility of loss for credit default. It applies to customer’s all credit businesses. Such type of business risk rating shall be classified into 5 grades.

According to different business rating and guidelines of AMCM, the Branch will count a general provision of all loans and will have special reserves of overdue loans. Also, the Branch will have additional provision or recover of provision depending on the changes of the credit quality. Building on the guidelines of AMCM, the Branch will manage the overdue loan’s classification.

Credit Risk(continued)

(Expressed in thousands of Macau Patacas)

Geographical distribution of Loans and commitment, debt investment and derivatives

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

	31 December 2020		
Region	**Loans and Commitments MOP'000**	**Debt Securities MOP'000**	**Financial Derivatives MOP'000**
Macau SAR	**9,958,901**	**934,914**	**-**
in which:			
− Banks	-	934,914	-
− Governments	-	-	-
− Public Sector	-	-	-
− Others	9,958,901	-	-
Hong Kong SAR	**17,920,282**	**8,521,406**	**21,419,717**
in which:			
− Banks	-	5,279,894	21,419,717
− Governments	-	-	-
− Public Sector	-	-	-
− Others	17,920,282	3,241,512	-
Mainland China	**38,413,066**	**6,745,724**	**13,244,993**
in which:			
− Banks	-	5,682,142	13,244,993
− Governments	-	197,292	-
− Public Sector	-	-	-
− Others	38,413,066	866,290	-
Others	**13,300,562**	**18,191,649**	**-**
in which:			
− Banks	-	1,746,900	-
− Governments	-	-	-
− Public Sector	-	-	-
− Others	13,300,562	16,444,749	-
Total	**79,592,811**	**34,393,693**	**34,664,710**

Credit Risk(continued)

(Expressed in thousands of Macau Patacas)

Geographical distribution of Loans and Advances

Distribution of loans and advances by region over or equal to 10% of total loans.

Region	31 December 2020 MOP'000
Macau SAR	6,231,880
Hong Kong SAR	17,920,282
Mainland China	38,413,066
Others	6,505,821
Total	**69,071,049**

Industry distribution of Loan and Advances

	31 December 2020 MOP'000
Mining industries	1,718,360
Manufacturing industries	595,997
Electricity, gas and water	399,260
Construction and public works	1,309,385
Wholesale and retail trade	29,958,128
Restaurants, hotels and similar	6,099,001
Transport, warehousing and communications	5,391,018
Non-monetary financial institutions	16,154,924
Information technology	798,520
Other industries	3,103,761
Personal loans	3,542,695
Total	**69,071,049**

Credit Risk(continued)

(Expressed in thousands of Macau Patacas)

Overdue assets analysis

	31 December 2020 MOP'000
Overdue for over 3 to 6 months	-
Overdue for over 6 to 12 months	480,654
Overdue for over 12 months	-
Total	**480,654**

Maturity analysis on assets and liabilities - by remaining maturity

	31 December 2020					
	Less than 1 month MOP'000	Between 1 to 3 months MOP'000	Between 3 to 12 months MOP'000	Between 1 to 2 Years MOP'000	Over 2 years MOP'000	Total MOP'000
Assets						
Cash in hand	20,038	-	-	-	-	20,038
Deposit with A.M.C.M	1,277,432	-	-	-	-	1,277,432
Amount due from banks	10,869,830	3,591,690	8,249,521	-	2,060,000	24,771,041
Loans and advances	3,630,709	18,690,015	28,567,234	8,002,851	10,180,240	69,071,049
Debt securities investment	-	478,617	3,631,555	6,683,316	23,600,205	34,393,693
Total	**15,798,009**	**22,760,322**	**40,448,310**	**14,686,167**	**35,840,445**	**129,533,253**

	31 December 2020					
	Less than 1 month MOP'000	Between 1 to 3 months MOP'000	Between 3 to 12 months MOP'000	Between 1 to 2 Years MOP'000	Over 2 years MOP'000	Total MOP'000
Liabilities						
Amount due to banks	13,444,556	12,975,717	19,404,883	5,703,248	4,455,560	55,983,964
Other deposits	16,061,751	17,211,137	29,669,392	5,543,716	-	68,485,996
Total	**29,506,307**	**30,186,854**	**49,074,275**	**11,246,964**	**4,455,560**	**124,469,960**

Market Risk

Due to the price fluctuation of exchange rate, interest rate or stocks and commodities, the Branch will adjust market risk to meet the on-balance sheet and off-balance sheet losses. Market risk can be classified into interest rate risk and exchange rate risk. All types of risk limit are according to the approval of the head office and the General Manager Office (“GMO”). The Branch’s Asset and Liability Committee (“ALCO”) and Risk Committee will monitor the status of market risk regularly.

Interest Rate Risk

Interest Rate Risk mainly is structural risk and can be classified as follow:

- Repricing (or maturity mismatch) risk: is caused by timing differences in rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet instruments.
- Basic Risk: arises from imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics.

With the authorities of GMO, the Branch ALCO is responsible to develop, coordinate, and control the procedures of management of assets and liabilities. It can also manage and monitor the limit and structure of all assets and liabilities.

Gap Analysis is one of the tools for measuring the interest rate risk of the Branch. This analysis provides the information of the maturity and repricing of assets and liabilities. Generally, the Branch uses interest rate derivatives (e.g. interest rate swap) to hedge interest rate risk.

Earnings and economic value sensitivity to changes in interest rates is measured by using the simulated yield curve of 200 basis points interest rate shock model. The result will be reported to the ALCO and Risk Committee quarterly.

Operational Risk

Operation risk is the risk caused by defect or malfunction of internal procedures, operation and system, or from external events leading to bank losses. The branch has a specific department responsible for daily monitoring and management related matters. Besides, the Branch has formulated operating guidelines for the sudden and unexpected events and allocates resources to setup a backup system to reduce the operational risk to an acceptable level and fulfill the requirements of regulatory authorities.

Fixed Income Investment and Relative Risk Management

Fixed Income Investment refers to the business of bond investment for the purpose of obtaining principal and interest income, relative risks associated with Fixed Income Investment include but not limited to interest rate risk, credit risk, exchange rate risk, liquidity risk, and reinvestment risk.

The Bank complies with the <Financial Systems Act> as well as relevant regulatory guidelines and internal policies as set out by the AMCM and BOCOM Head Office in conducting and managing its investment activities. Factors such as the nature of issuer, underlying assets and objectives, as well as investment purpose are also taken in account when carrying out Fixed Income Investments. The Bank mainly engages in proprietary investment activities with positions covering sovereign bonds, financial institution bonds and corporate bonds. No event of default has occurred thus far on the Bank's position.

A sound risk management framework is implemented to ensure relevant departments work collectively to facilitate steady development of the Bank's Fixed Income Investment business. The framework covers the entire investment process, including but not limited to product onboarding, strategic and procedure formulation, post-investment position monitoring, etc., with professional committee set up to develop strategies and guide investment decisions on a regular basis. Investment activities are also being assessed in terms of profitability, safety, and liquidity prior to transactions are executed.

Foreign Exchange Risk

(Expressed in thousands of Macau Patacas)

The main denominated currencies for the banking services are Macau patacas ("MOP"), Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB"), the foreign exchange risk arises from foreign exchange trading and commercial banking activities. Foreign exchange positions are managed by the Treasury Department, of which limits are according to the approval of the head office and the GMO. The above positions will be monitored daily.

The foreign exchange risks of the Branch at settlement day are as follow:

Currency	**Net Open Position including Option Contracts Long or Short 31 December 2020 MOP'000**
AUD	(324)
CAD	1
CNY	88,970
EUR	3,977
HKD	1,235,090
JPY	29
NZD	35
GBP	(547)
SGD	26
CHF	70
USD	1,649,536

The position of over or equal to 10% of total foreign currencies:

	31 December 2020				
	Spot Assets MOP'000	Spot Liabilities MOP'000	Forward Purchases MOP'000	Forward Sales MOP'000	Net Position MOP'000
USD	97,668,469	74,698,155	2,566,344	23,887,122	1,649,536
HKD	11,407,416	34,054,720	23,882,394	-	1,235,090
CNY	17,314,937	14,641,198	-	2,584,769	88,970

Liquidity Risk

(Expressed in thousands of Macau Patacas)

The goal of liquidity management is to enable the Branch meet all maturing debt on schedule, provide funds for asset growth and investment opportunities, even under adverse market conditions, and also to avoid selling assets for cash in case of emergency.

The source of funds of the Branch is mainly from retail and corporate customer deposits and interbank markets. Most of the Branch’s funds will be used for loans, debt securities investment and interbank market placements.

The main objective of the Branch’s asset and liability management strategy is to maintain sufficient liquidity, and gain the best returns with an effective risk management mechanism. In addition, the Branch also established liquidity risk emergency team to deal with unexpected liquidity risk crisis.

Liquidity management is operated weekly, monthly and quarterly. Conforming to the guidelines of AMCM, the Branch will monitor the cash flow and specific liquid assets to basic liabilities ratio weekly, and make liquidity risk stress testing quarterly.

The average liquidity data of the Branch as at 31 December 2020:

	MOP'000
The arithmetic mean of the minimum weekly amount of cash in hand that is required to hold during the annual reporting period	915,847
The arithmetic mean of its weekly amount of cash in hand during the annual reporting period	1,074,059
The arithmetic mean of its specified liquid assets at the end of each month during the annual reporting period	33,424,155
The average ratio of specified liquid asset to total liabilities at the end of each month during the annual reporting period	51.16%
The arithmetic mean of its one-month liquidity ratio in the last week of each month during the annual reporting period	43.53%
The arithmetic mean of its three-month liquidity ratio in the last week of each month during the annual reporting period	60.62%

Other information

The Branch is one of the branches of Bank of Communications, Co., Ltd. Therefore it is not required to prepare consolidated financial statements. The details of group's capital adequacy ratio, consolidated capital and reserves, consolidated balance sheet and consolidated income statement are published on the following website http://www.bankcomm.com.

The English version is for reference only. In the event of discrepancies between the Chinese and English versions, the Chinese version shall prevail.