

BDCB Notice No. BU/N-1/2021/68
Pillar 3 – Public Disclosure
Requirements as of
31 December 2021

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Overview

Bank of China (Hong Kong) Limited Brunei Branch (“The Branch”) has completed its Pillar 3 – Public disclosure requirements covering the overview of key prudential metrics and Risk-Weighted Assets (“RWA”) in respect of the year as of 31st December 2021. The report is prepared with reference to Brunei Darussalam Central Bank (“BDCB”)’s Pillar 3 – Specific Disclosure Requirements. The Branch conducts regular assessment on risk management status and risk governance based on regulatory requirements and assesses the Branch’s level of internal capital adequacy accordingly.

1. C1: OVERVIEW OF KEY PRUDENTIAL METRICS AND RWA

a. KM1: Key Metrics

	(a)	(b)	(c)	(d)	(e)
	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
<u>Available capital (amounts)</u>					
1 Tier 1	103,457	99,656	99,601	99,545	99,489
2 Total capital	104,770	100,687	100,687	101,085	100,705
<u>Risk-weighted assets (amounts)</u>					
3 Total risk-weighted assets (RWA)	309,410	241,390	307,440	289,312	274,766
<u>Risk-based capital ratios as a percentage of RWA</u>					
4 Tier 1 ratio (%)	33.44%	41.28%	32.40%	34.41%	36.21%
5 Total capital ratio (%)	33.86%	41.71%	32.75%	34.94%	36.65%

The main decrease of tier 1 capital ratio and total capital ratio in Q4 2021 compared to Q3 2021 was mainly due to the increase of new loans from customers which affected the credit risk RWA resulted a total increase of B\$ 67,923,000.00. There is no change in the nature of business and business is improving gradually since the pandemic outbreak in March 2020. However, it can be seen that the position of total CAR is still sufficient to meet the Branch’s capital needs.

b. OV1: Overview of Risk Weighted Assets (RWA)

	(a)	(b)	(c)
	RWA		Minimum capital requirements
	31 December 2021	30 September 2021	31 December 2021
	B\$'000	B\$'000	B\$'000
1 Credit risk (Standardised)	294,402	226,479	29,440
2 Market risk (Standardised)	1,460	1,363	146
3 Operational risk (Basic Indicator Approach)	13,548	13,548	1,355
4 Total (Row 1 + 2 + 3)	309,410	241,390	30,941

In this table, the main driver of significant increase in credit risk RWA was due to new customer loans and other trade finances business in Q4 2021. Business is generally improving comparing Q3 2021 with Q4 2021 as the global economy is recovering despite resurging pandemic.

2. C2: COMPOSITION OF CAPITAL

a. CC1: Composition of regulatory capital

	(a)
	31 December 2021
	B\$'000
Tier 1 capital: instruments and reserves	
1 Paid-up Ordinary Shares/Assigned Capital (after deduction of holdings of own capital)	100,037
2 Non-Cumulative, Non-Redeemable Preference Shares	-
3 Share Premium	-
4 Statutory Reserve Fund	3,484
5 Published Retained Profits/ (Accumulated Losses)	(8)
6 General Reserves	-
7 Fair Value Reserves	-
8 Tier 1 capital before regulatory adjustments	103,513
Tier 1 capital: regulatory adjustments	
9 Reciprocal cross-holdings of ordinary shares (as required by BDCB)	-
10 Goodwill	-
11 Other intangible assets	56
Advances/financing granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	-
12 Minority Interests held by 3rd parties in Financial Subsidiary	-
14 Total Regulatory adjustments to Tier 1 Capital	103,457
15 Tier 1 capital	103,457
Tier 2 capital: instruments and provisions	
16 General Credit Loss Reserves (Capped at 1.25% of Credit Risk)	1,313
17 Hybrid (debt/equity) Capital Instruments	-
18 Approved Subordinated Term Debt (Capped at 50% of Core Capital Element)	-
19 Tier 2 capital before regulatory adjustments	1,313
Tier 2 capital: regulatory adjustments	
20 Reciprocal Crossholdings of Tier 2 Capital Instruments	-
Minority Interests Arising From Holdings of Tier 2 Instruments in Financial Subsidiaries by Third Parties	-
21 Total regulatory adjustments to Tier 2 capital	-
23 Tier 2 capital (T2)	1,313
24 Allowable Supplementary Capital (Tier 2 Capital)	1,313
25 Sub-Total of Tier 1 and Tier 2 Capital	104,770
26 Deductions/Adjustments 3 to total Amount of Tier 1 and Tier 2 capital	-
27 Significant Investments in Banking, Securities and Other Financial Entities	-
28 Significant Investments in Insurance Entities & Subsidiary	-
29 Significant Investments in Commercial Entities	-
30 Securitisation Exposures (Rated B+ or Below and Unrated)	-
31 Resecuritisation Exposures (Rated B+ or Below and Unrated)	-
32 Total regulatory capital	104,770
33 Total risk-weighted assets	309,410
Capital ratios	
34 Tier 1 (as a percentage of risk-weighted assets)	33.44%
35 Total capital (as a percentage of risk-weighted assets)	33.86%

The main increase of tier 1 capital and total capital in H2 2021 compared to H1 2021 was mainly due to the transfer of net profit to statutory reserve and accumulated losses amounted to B\$ 1,872,408.90 and B\$ 1,872,408.90 respectively.

3. **C3: LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES**

a. LIA: Explanations of differences between accounting and regulatory exposure amounts

The main driver for the difference between accounting values and amounts considered for regulatory purposes is off-balance sheet amounts, which contribute to exposure amounts considered for regulatory purposes but not the carrying value amount under scope of regulatory consolidation.

The Branch has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices, which is fully backed by Bank of China (Hong Kong) Limited (“BOCHK”). Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Other specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant issues are reported to senior management, Risk Committee and BOCHK.

The Branch chooses appropriate valuation methodologies in corresponding to the nature, position and complexity of treasury products. They can be classified into marking-to-market and marking-to-model. Marking-to-market is valuation of positions by adopting readily available and observable close out prices in the market. If market quotation is not available, marking-to-model should be adopted. Marking-to-model is valuation which has to be benchmarked, extrapolated or otherwise derived from market data inputs.

Control units independently verify the results of fair value measurements. They source observable data from external independent parties, and compare them to the pricing inputs used in valuation for the financial instruments measured at fair value. If the difference is within pre-set threshold, the selected input is considered as reasonable and can represent current market situation, which supports the conclusion that valuation is reliable.

On top of accounting valuation, the Branch conducts liquidity risk adjustments for risk management and regulatory capital adequacy purpose in order to arrive at a prudent value. The Branch has continued to consider the liquidity risk adjustment to valuation of less liquid product position.

b. LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 December 2021	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				Not subject to capital requirements or subject to deduction from capital
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
<u>Assets</u>							
Cash	1,552	1,552	1,552	-	-	-	-
Balances with Brunei Darussalam Central Bank	57,709	57,709	57,709	-	-	-	-
Deposits with banks and other financial institutions	611	611	611	-	-	-	-
Government sukuk	10,875	10,875	10,876	-	-	-	(1)
Group balances receivable	139,011	139,011	139,012	-	-	-	(1)
Loans and advances	378,892	378,892	380,162	-	-	-	(1,270)
Other assets	582	582	583	-	-	-	(1)
Property and equipment	1,216	1,216	1,216	-	-	-	-
Intangible assets	56	56	56	-	-	-	-
Deferred tax assets, net	132	132	132	-	-	-	-
Total assets	590,636	590,636	591,909	-	-	-	(1,273)
<u>Liabilities</u>							
Deposits from customers	235,024	257,981	-	-	-	-	257,981
Deposits from banks and other financial institutions	22,957	-	-	-	-	-	-
Group balances payable	205,791	205,791	-	-	-	-	205,791
Other liabilities	22,402	22,402	-	-	-	-	22,402
Provision for taxation	949	949	-	-	-	-	949
Total liabilities	487,123	487,123	-	-	-	-	487,123

c. LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	(a)	(b)	(c)	(d)	(e)
	Items subject to:				
	Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
31 December 2021					
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	591,909	591,909	-	-	-
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
Total net amount under regulatory scope of consolidation	591,909	591,909	-	-	-
Off-balance sheet amounts	41,812	41,812	-	-	-
Exposure amounts considered for regulatory purposes	633,721	633,721	-	-	-

4. C4: OVERVIEW OF RISK MANAGEMENT

a. OVA: Risk Management Approach

The Branch conducts risk assessment in daily operations based on its business activities, sets up risk appetite and risk adjusted return targets as well as different levels of risk limits and Key Risk Indicators (“KRIs”) under the overall risk appetite framework. The risk appetite is cascaded to business units into corresponding performance indicators, so as to supervise business units to make proper adjustments to the Branch’s operations based on current risk status.

The Branch conducts regular assessment on risk management status and risk governance based on regulatory requirements and assesses the Branch’s level of internal capital adequacy accordingly. Key types of risk inherent in the Branch include: credit risk, market risk, interest rate risk, liquidity risk, operational risk, legal and compliance risk (including anti-money laundering risk), reputation risk and strategic risk.

The risk governance structure of Bank of China (Hong Kong) Limited covers 3 layers: the Board of Directors and its subordinate committees, the senior management and the management level committees, the three lines of defence risk management functions. However, the risk governance structure of the Branch only covers the senior management and the three lines of defence risk management functions.

- Board of Directors: Being an overseas branch, the Branch does not have a dedicated Board of Directors. The Board of Directors for Bank of China (Hong Kong) Limited represents the interests of shareholders, and is the highest decision-making authority and has the ultimate responsibility for the oversight of risk management. The Board, with the assistance of its committees which includes a Risk Committee, has the primary responsibilities for the determination of risk management strategies, risk appetite and risk culture.
- Senior management: The Branch’s senior management is responsible in implementing these risk management strategies and ensuring development of policies and procedures for identifying, measuring, monitoring and controlling risk arising from new businesses, products and operating environment, or in response to regulatory changes.
- Business unit: Acts as the first line of defence of risk management and is responsible for soliciting business in compliance with the risk management policies and procedures and within various risk limits, and for assessing and monitoring the risk of their business, and ensuring risk data is correctly entered, kept current and aligned with the data definitions.
- Risk management unit: Acts as the second line of defence of risk management, independent from the business unit, and responsible for day-to-day management of different kinds of risk. Primary responsibilities for providing an independent due diligence through identifying, measuring, monitoring and controlling risk to ensure an effective check and balance, as well as drafting various risk management policies and procedures. In addition, responsible for

reporting the implementation of risk management policies and risk profiles to the Senior Management and for providing support and recommendations for their decision-making.

- Supporting units: Responsible for providing proper day-to-day operations support to ensure that there are adequate human resources and systems to support risk management.
- Internal audit: Acts as the third line of defence of risk management is responsible for conducting independent checking, and reporting to the Board on the quality of risk management supervision, the adequacy and the compliance of internal policies and procedures.

The Branch develops various codes of conduct and has sound management systems in place to enforce them. The standards of conduct are laid down in its risk management policies, and other operating principles and guidelines. All staff are required to follow them when conducting business.

The Branch makes use of appropriate training programmes, remuneration, incentive, reward and penalty schemes, assessment and feedback mechanism to guide and drive staff to conduct business in a responsible, honest, practical and proper manner.

The Branch's risk management measurement system covers comprehensive quantitative and qualitative indicators of the 8 major risk categories as required by regulator.

Under such system, the Branch sets regularly reviews and monitors risk limits based on operating conditions and risk status, and report regularly to senior management and BOCHK.

Based on regulatory requirements, the Branch conducts a variety of stress tests on individual risks and integrated risks each year. Each stress testing scenario takes into account 3 levels of severity, i.e. mild, moderate, and severe, while different probabilities are applied based on level of severity. Impacts on macroeconomic and market will be evaluated under different scenarios, and impact on Branch's risk indicators are also assessed accordingly.

The Bank shall apply stress testing results to various management decisions, including decisions made on strategic businesses, preparation of the business and capital planning, setting and adjustment of the risk limit, inclusion in the Internal Capital Adequacy Assessment Process ("ICAAP"), performance of liquidity assessment, implementation of remedial actions and recovery plan, etc.

The strategies, and processes to manage, hedge and mitigate risks that arise from the Branch's business model include:

- i) Establishing clear risk management strategies and ensuring that a comprehensive risk management system is in place to identify, assess, monitor and control various kinds of risks.
- ii) Establishing risk management units with clear responsibilities to perform independent risk management and control.

- iii) Establishing effective communication system that enables the “tone of the top” on risk management are communicated to and understood by every employee so that they could comply with BOCHK’s risk management strategies.
- iv) Putting in place supporting policies and procedures as well as clear authority structure that guide employees’ behaviours and set clear boundaries for actions.
- v) Setting limits for quantifiable risks (including credit risk, market risk, interest rate risk and liquidity risk) to ensure that exposures to such risks are controlled within acceptable risk levels.
- vi) Establishing independent internal audit, review and accountability system so as to review and evaluate the implementation of the Branch’s risk management system.

The Branch has established various risk limits and early warning indicators of different types and different approval levels, and regularly monitors and reports implementation status to senior management and BOCHK. If such indicators approach or breach the early warning level or pre-set limits, timely assessment will be conducted by relevant function units and reports to corresponding approval level, and appropriate mitigation actions will be taken accordingly.

5. C5: LIQUIDITY RISK

a. LIQA – Liquidity risk management

In accordance with the Branch's corporate governance principles in respect of risk management, the committees, senior management and functional departments/units perform their duties and responsibilities to manage the Branch's liquidity risk.

The Branch established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on a daily basis. These indicators and limits include, Minimum Cash Balance ("MCB"), Asset Maintenance Ratio ("AMR") and loan-to-deposit ratio. The Branch applies a cash flow analysis to assess the Branch's liquidity condition under normal conditions and also performs a liquidity stress test and other methods to assess the Branch's capability to withstand various severe liquidity crisis.

In accordance with the requirements of Section 45(1) of the Banking Order, 2006 to maintain minimum cash balance with BDCB, the Branch was fully complied as at 31 December 2021.

The Branch is committed to diversify the sources, tenor and use of funding to avoid excessive concentration of assets and liabilities; and prevent triggering liquidity risk due to the break of funding strand resulting from over-concentration of sources and use of funding in a particular area where problems occur. The Branch could improve the liquidity position by taking mitigation actions including, but not limited to obtaining funding through interbank borrowings in the money market, selling bonds in the secondary market or retaining existing and attracting new customer deposits. Apart from increasing the funding, the Branch would maintain good communication with the counterparties, the parent bank and the regulators to enhance mutual confidence.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Branch's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted.

A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

The Branch has established a set of liquidity risk management policies which serve as standards and guidance to all the Branch's responsible parties for liquidity risk management. The Branch is required to report the respective liquidity positions on a regular basis to the RMD of BOCHK.

The following table shows cash flow analysis of the Branch's liabilities by remaining contractual maturities on an undiscounted basis. Actual maturity dates may differ from contractual maturity dates due to behavioural patterns such as early withdrawal of deposits or loans from counterparties.

31 December 2021	Carrying amount	Gross nominal outflow	Up to 1 month	1-3 months	3-12 months	1-3 years	More than 3 years
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
Liabilities							
Deposits from customers	235,024	235,158	174,763	44	60,351	-	-
Deposits from banks and other financial institutions	22,957	22,983	-	-	22,983	-	-
Group balances payable	205,791	205,818	198,073	7,745	-	-	-
Other liabilities	22,205	22,205	404	3,685	17,960	146	10
Lease liabilities	197	197	41	33	57	66	-
Provision for taxation	949	949	-	811	138	-	-
	487,123	487,310	373,281	12,318	101,489	212	10

The maturity analysis based on the remaining period at balance sheet date to the contractual maturity date is as follows:

31 December 2021	Within one year	One to three years	Over three years	Total
	B\$'000	B\$'000	B\$'000	B\$'000
Total on-balance sheet assets	458,959	87,366	44,311	590,636
Total on-balance sheet liabilities	486,901	212	10	487,123
Net liquidity gap	(27,942)	87,154	44,301	103,513
Total off-balance sheet items	36,138	5	5,669	41,812

6. C6: CREDIT RISK

a. CRA: General qualitative information about credit risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the banking book, as well as from on- and off-balance sheet transactions of the Branch. It arises principally from lending, trade finance and treasury businesses.

The Branch has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit limits to manage and control credit risk that may arise. These policies, procedures and credit limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

The Branch's organization structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits. BOCHK delegates credit approval authority to the Country General Manager ("GM") and no further delegation is allowed. BOCHK sets the limits of credit approval authority according to the credit business nature, rating, the level of transaction risk, and the extent of the credit exposure.

The Chief Risk Officer ("CRO") assist GM to oversee credit risk management. Various units of the Branch have their respective credit risk management responsibilities.

Business units act as the first line of defence in risk management.

The Risk and Compliance Department ("RCD"), which is independent from the business units, is responsible for the management of credit risks and provides an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the design, development and maintenance of the Branch's internal rating system and ensures the system complies with the relevant regulatory requirements.

Back offices are responsible for credit administration, providing operations support and supervision on the implementation of prerequisite terms and conditions of credit facilities.

The internal audit is responsible for conducting independent reviews on the adequacy and effectiveness of credit risk management framework, as well as the compliance to internal policies and procedures.

The RCD provides regular credit management information reports to the Risk Committee, senior management and BOCHK to facilitate their continuous monitoring of credit risk.

In addition, the Branch identifies credit concentration risk by industry, geography, customer, or counterparty. The Branch monitors changes to every counterparties credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the senior management.

b. CR1: Credit quality of assets

	(a)	(b)	(c)	(d)	(e)	(f)
	Gross carrying values of		Allowances/ impairments	Of which: ECL accounting provisions for credit losses on SA exposures		Net values
	Defaulted exposures	Non- defaulted exposures		Of which: Specific Allowances	Of which: General Allowances	
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
31 December 2021						
1 Loans	-	380,162	(1,270)	-	(1,270)	378,892
2 Debt Securities	-	10,876	(1)	-	(1)	10,875
3 Off- balance sheet exposures	-	41,812	(40)	-	(40)	41,772
4 Total	-	432,850	(1,311)	-	(1,311)	431,539

The Branch identifies the exposures as “default” if the exposure is past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Branch.

c. CR2: Changes in Stock of Defaulted Loans and Debt Securities

	(a)
	31 December 2021
	B\$'000
1 Defaulted loans and debt securities at end of the previous reporting period	-
2 Loans and debt securities that have defaulted since the last reporting period	-
3 Returned to non-defaulted status	-
4 Amounts written off	-
5 Other changes	-
6 Defaulted loans and debt securities at end of the reporting period	-

There was no defaulted loan and debt security for the Branch.

d. CRB: Additional disclosure related to the credit quality of assets

i) Past due

An asset is considered to be past due when any payment under the strict contractual terms have been missed or received late. The amount included as past due is the entire contractual balance, rather than the overdue portion.

ii) Past due but not impaired loans and advances

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Branch believes that impairment is not appropriate on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Branch.

iii) Impaired loans and advances

Advances are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Credit-impaired advances are classified as Stage 3 and lifetime expected credit losses will be recognised.

The Branch identifies the advances as impaired if the exposure is past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Branch. The impairment allowances were made after taking into account the value of collateral in respect of such advances.

ECL is assessed in three stages and the exposures are classified on one of the following three stages:

Stage 1: if the financial instruments are not credit-impaired during origination and their credit risk has not increased significantly since origination, and the impairment allowance is measured at an amount up to 12-month ECL;

Stage 2: if the financial instruments are not credit-impaired during origination but their credit risk has not increased significantly since origination, and the impairment allowance is measured at an amount equal to the lifetime ECL;

Stage 3: if the financial instruments are credit-impaired and their future cash flows of that financial instruments are adversely affected by one or more events, and the impairment allowance is also measured at an amount equal to the lifetime ECL.

Restructured exposure are those advances that have been restructured and renegotiated between the bank and borrowers because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule, and the revised repayment terms, either of interest or the repayment period, are “non-commercial” to the Branch.

(i) Exposures by geographical areas

	Loans and advances	Contingencies and other commitments	Total
<u>31 December 2021</u>	B\$'000	B\$'000	B\$'000
Brunei Darussalam	188,413	36,099	224,512
Hong Kong	89,838	5,713	95,551
Chinese Mainland	73,742	-	73,742
Others	28,169	-	28,169
Total	380,162	41,812	421,974

(ii) Exposures by industry

	Loans and advances	Contingencies and other commitments	Total
<u>31 December 2021</u>	B\$'000	B\$'000	B\$'000
Manufacturing	222,850	41,029	263,879
Financial	81,690	44	81,734
Residential & commercial property	43,026	-	43,026
Infrastructure	13,507	-	13,507
Telecommunication and information technology	13,507	-	13,507
Services	4,713	600	5,313
Traders	869	139	1,008
Total	380,162	41,812	421,974

(iii) Exposures by residual maturity

	Loans and advances
<u>31 December 2021</u>	B\$'000
Within one year	249,013
One to three years	87,153
Over three years	43,996
Total	380,162

(iv) Impaired exposures by geographical areas

	Loans and advances	Contingencies and other commitments	Total
31 December 2021	B\$'000	B\$'000	B\$'000
Brunei Darussalam	701	30	731
Hong Kong	495	10	505
Chinese Mainland	44	-	44
Others	30	-	30
Total	1,270	40	1,310

(v) Impaired exposures by industry

	Loans and advances	Contingencies and other commitments	Total
31 December 2021	B\$'000	B\$'000	B\$'000
Manufacturing	457	40	497
Residential & commercial property	459	-	459
Infrastructure	127	-	127
Financial	127	-	127
Services	74	-	74
Telecommunication and information technology	14	-	14
Traders	12	-	12
Total	1,270	40	1,310

(vi) Aging analysis of accounting past due exposures

	Loans and advances B\$'000
31 December 2021	
Overdue for three months or less	7,525
Overdue for six months or less but over three months	-
Overdue for one year or less but over six months	-
Overdue for over one year	-
Total	7,525

(vii) Restructured exposures

	Loans and advances B\$'000
31 December 2021	
Impaired exposures	-
Not impaired exposures	-
Total	-

e. CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

The Branch's policies and procedures stipulated the counterparty credit risk management and the netting should only be applied where there is a legal right to do so.

The Branch has in place specific policies with respect to revaluation and management of collateral. These policies articulate the standards to monitor and manage the collateral's security as the secondary repayment source and recovery of obligation loss. All collaterals are revalued on a regular basis. More frequent revaluation is required for collaterals with higher volatility or deteriorated accounts.

The credit and market risk concentrations within the credit risk mitigation (recognized collateral and guarantees for capital calculation) used by the Branch are under a low level.

f. CR3: Overview of credit risk mitigation (CRM) techniques

	(a)	(b)	(c)	(d)	(e)
	Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
31 December 2021					
1 Loans	366,185	13,977	13,933	44	-
2 Debt securities	10,876	-	-	-	-
3 Total	377,061	13,977	13,933	44	-
4 Of which defaulted	-	-	-	-	-

Significant increase in loans was due to increase of new customers.

g. CRD: Qualitative disclosure on banks' use of external credit ratings under the standardised approach for credit risk

The ECAIs recognised by the Branch include Standard & Poor's, Moody's and Fitch which is listed in the BDCB Capital Adequacy Framework.

The Branch adopt standardised credit risk approach based on external credit rating to determine the risk weight of the small residual credit exposures that was approved by the BDCB and the exposures are listed as below:

- Exposures to Sovereigns and Central Banks
- Exposures to Multilateral Development Banks (MDBs)
- Exposures to Banks
- Exposure to Corporates

The Branch performs the ECAI issuer ratings mapping to its exposures in banking book in accordance with Section E2, External Credit Assessment, of the BDCB Capital Adequacy Framework.

h. CR4: Standardised approach for Credit risk exposure and credit risk mitigation (CRM) effects

Asset classes	(a)	(b)	(c)	(d)	(e)	(f)
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	%
31 December 2021						
1 Sovereigns and their central banks	68,585	-	68,585	-	-	0%
2 Non-central government public sector entities	-	-	-	-	-	0%
3 Multilateral development banks	-	-	-	-	-	0%
4 Banks	221,313	-	221,313	-	98,571	46%
5 Securities firm	-	-	-	-	-	0%
6 Corporates	292,081	41,812	186,424	2,646	189,070	100%
7 Regulatory retail portfolios	-	-	-	-	-	0%
8 Secured by residential property	2,487	-	2,487	-	870	35%
9 Secured by commercial real estate	3,904	-	3,904	-	3,904	100%
10 Equity	-	-	-	-	-	0%
11 Past-due loans	-	-	-	-	-	0%
12 Higher-risk categories	-	-	-	-	-	0%
13 Other assets	3,539	-	3,539	-	1,987	56%
14 Total	591,909	41,812	486,252	2,646	294,402	60%

i. CR5: Standardised approach for Exposures by asset classes and risk weights

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
<div>Risk Weight</div> <div>Asset classes</div>	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
31 December 2021										
Sovereigns and their central banks	68,585	-	-	-	-	-	-	-	-	68,585
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	93,456	-	95,955	-	31,902	-	-	221,313
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	189,070	-	-	189,070
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	2,487	-	-	-	-	-	2,487
Secured by commercial real estate	-	-	-	-	-	-	3,904	-	-	3,904
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	1,552	-	-	-	-	-	1,987	-	-	3,539
Total	70,137	-	93,456	2,487	95,955	-	226,863	-	-	488,898

7. C7: COUNTERPARTY CREDIT RISK (CCR)

a. CCRA: Qualitative disclosure related to CCR

The Branch's management objective to counterparty credit risk is to ensure credit risk is properly managed and controlled with the general credit risk management framework. The Branch has also formulated relevant policy which covers identification, measurement, control and monitoring of counterparty credit risk.

The Branch established credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from derivative transactions and settlement limit to control the settlement risk arising from foreign exchange related transactions for counterparties including CCP in both the trading book and banking book. The Branch monitors the risk exposure due to market fluctuations by using the current exposure and the potential exposure value of the transactions.

In controlling and monitoring of wrong-way risk (risk of existence of positive correlation between the PD of a counterparty and credit exposures driven by mark-to-market value of the underlying transactions), specific wrong-way risk transactions are generally not allowed; monitoring measures have been formulated for those counterparties that would exposed to potential general wrong-way risk being identified by making use of internal risk management tools.

Based on the existing ISDAs and CSAs signed with BOCHK's counterparties, there is no impact on collateral amount that BOCHK would be required to provide given a credit rating downgrade.

8. C8: SECURITISATION

a. SECA: Qualitative disclosure requirements related to securitisation exposures

The Branch has not sponsored or managed or provided implicit support to securitisation exposures and does not hold any re-securitisation exposures as at 31 December 2021.

9. C9: MARKET RISK

a. MRA: Qualitative disclosure requirements related to market risk

Market risk refers to the risk of financial loss where the value of the Branch's assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates.

The Branch's market risk management is intended to ensure proper oversight of market risk, assure market risk taking activities are consistent with its risk tolerance levels while optimising risk and return. In accordance with the corporate governance principles in respect of risk management, the Risk Management Committee, the senior management and functional departments/units perform their duties and responsibilities to manage the market risk. The Risk and Compliance Department is mainly responsible for managing market risk, assisting senior management to perform their duties, independently monitoring the market risk profile and compliance of management policies and limits and ensuring that the aggregate and individual market risks are within acceptable levels.

The Branch sets up market risk indicators and limits to identify, measure, monitor and control market risk. However, based on the current arrangement, no proprietary trading is allowed and no market risk exposure is granted to the Branch where all position is transferred to or squared with the BOCHK.

b. MR1: Market risk under standardised approach

		(a)
		RWA
		31 December 2021
		B\$'000
1	Interest / Profit rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	1,460
4	Commodity risk	-
5	Total	1,460

10. C10: INTEREST RATE RISK IN THE BANKING BOOK

a. IRRBB: Interest Rate Risk in the Banking Book (IRRBB) risk management objective and policies

Interest rate risk means the risks to a Branch's earnings and economic value arising from movements in interest rate and term structures of the Branch's asset and liabilities positions. The Branch's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Gap risk: mismatches in the maturity or repricing periods of assets and liabilities and off-balance sheet instruments that may affect net interest income and economic value;
- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

The Branch's risk management framework applies also to interest rate risk management. The Asset and Liability Management Committee ("ALCO") exercises its oversight of interest rate risk in accordance with the "Banking Book Interest Rate Risk Management Policy of Bank of China (Hong Kong), Brunei Branch" approved by Senior Management. Risk and Compliance Department is responsible for monitoring of the execution and management of interest rate risk. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, monitoring of the compliance with policies and limits, report to senior management and RC timely etc. Finance and Accounting Department to perform day-to-day interest rate risk management and submission of interest rate risk related reports to the senior management and relevant parties.

The Branch sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits are classified into different levels, which are approved by the BOCHK and senior management accordingly. The Branch is required to conduct their business within the boundary of the interest rate risk limits as stipulated by BOCHK as well as local regulatory guidelines.

Net Interest Income ("NII") and Economic Value ("EV") assess the impact of interest rate movement on the Branch's net interest income and capital base. They are the Branch's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using market interest rate) as a percentage to the latest capital base.

The Branch has no modelling for non-maturity deposits (“NMDs”). The average and the longest repricing maturity for NMDs in 2021 was next day.

	Impact on net interest income over the next twelve months at		Impact on reserves at	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	B\$'M	B\$'M	B\$'M	B\$'M
Total	1.37	0.88	(0.01)	(0.03)

11. C11: OPERATIONAL RISK

a. ORA: Qualitative disclosure requirements related to operational risk

Bank of China (Hong Kong) Limited – Brunei Branch (“the Branch”) as part of Bank of China (Hong Kong) Limited (“BOCHK”) Group is committed to ensure that the Branch can continuously and effectively develop its business by maintaining an effective operational risk management infrastructure by the abilities to identify, assess, monitor, report, control and mitigate its operational risk.

This is achievable through:

- (i) strengthening the structure of operational risk governance including management policy, procedures, organizational division of functions, accountability and responsibility as well as reporting system;
- (ii) promoting the operational risk management culture so as to strengthen the awareness and expertise of the management and staff towards operational risk management;
- (iii) establishing operational risk management processes, methodologies and modeling techniques so as to enhance the Branch’s operational risk management capabilities.

Pursuant to Operational Risk definition of Bank of China Limited, and taking into account of the relevant definition of the Basel Committee, the HKMA and the practical situation of the BOCHK, the definition of Operational Risk as:

“The risk of loss resulting from inadequate or failed internal process, people and systems, or from external events. It includes legal risk but excludes strategic and reputation risk. The risk is inherent in every aspect of business operations and confronted by the Branch in its day to day operational activities. The Branch has implemented the “Three Lines of Defence” system for the operational risk management at the departmental/ functional level:

- (i) First line of defence – All departments/functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of managing and controlling their business operation through self assessment, self checking, self correction and self development.
- (ii) Second line of defence – The Risk & Compliance Department, together with certain specialist functions units in the relation to operational risk management within the Branch, including the Administration Department and Finance and Accounting Department (collectively known as “specialist functional units”), are the second line of defence. They are responsible for assessing and monitoring the operational risk conditions of the first line of defence, and providing them with guidance. The Risk & Compliance Department, being independent from the business units, is responsible for assisting the Management in managing the Branch’s operational risk, including the establishment and review of the operational risk management policy and procedure, designing the operational risk management tools and reporting mechanism, and assessing and reporting

the overall operational risk status to the Branch Management and Country Head/General Manager. Specialist functional units are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk and its related issues. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to monitor the relevant risk status at corporate level.

(iii) Third line of defence – Group Audit is the third line of defence which provides independent assessment with respect to the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments within the Brunei Branch regarding their compliance and effectiveness and to put forward recommendations on corrective action.

All departments within the Brunei Branch are exposed to operational risk. To ensure operational risk management is effectively controlled, Brunei Branch applied locally the three lines of defence in accordance to BOCHK model. Brunei Branch's Risk & Compliance Department is the second line of defence to lead operational risk management and report operation risk situation to its management and BOCHK Legal & Compliance and Operational Risk Management Department ("LCO"). Senior Management of Brunei Branch has direct responsibilities for operational risk management.

Brunei Branch adopts various operational risk management tools or methodologies such as KRI, operational risk and control assessment (RACA), operational risk events reporting and review to identify, assess, monitor and control the risks inherent in business activities and products.

Brunei Branch has developed and implemented the KRI and operational risk events reporting under the guidance of BOCHK LCO to assess the operational risk situations. KRIs results are reported regularly to its management and BOCHK LCO. The scope of reporting covers Operational Loss, Customer Complaints, Staff Turnover, Audit Findings, Compliance Security & Fraud Risk, New Product & Services, Technology Risks & Information Security.

Brunei Branch has established business continuity plans to support business operations in the event of an emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted. Under the guidance of BOCHK LCO, Brunei Branch continues to improve its business continuity planning, such as business impact analysis, and back-up facilities. In addition, insurance is purchased to mitigate unforeseeable operational risks.

b. The approach adopted for the operational risk capital assessment.

The Branch uses the basic indicator (operational risk) approach to calculate its operational risk capital charge.