2017

中國銀行(香港)有限公司
BANK OF CHINA (HONG KONG) LIMITED

(Incorporated in Hong Kong)
Brunei Darussalam Branch

Branch Accounts for the period ended
from 18 June 2016 (date of registration)
to 31 December 2017

EY
Building a better working world

عرنست دان يڠ
Ernst & Young
Room 309A, 3rd Floor
Wisma Jaya, Jalan Pemancha
Bandar Seri Begawan BS8811
Negara Brunei Darussalam

PO Box 2162
Bandar Seri Begawan BS8674
Negara Brunei Darussalam

Tel: +673 223 9139
Fax: +673 223 9142
inquiries.eybrunei@bn.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bank of China (Hong Kong) Limited – Brunei Branch

Opinion

We have audited the financial statements of **Bank of China (Hong Kong) Limited – Brunei Branch** ("the Branch"), which comprise the statement of financial position as at 31st December 2017, and the statement of comprehensive income, statement of changes in Head Office account and cash flow statement for the period from 18 June 2016 (date of registration) to 31 December 2017, and a summary of significant accounting policies and other explanatory notes.

The Branch is a segment of **Bank of China (Hong Kong) Limited**, a company incorporated in Hong Kong, and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded locally.

In our opinion,

a) the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31st December 2017, and of its financial performance and its cash flows for the period then ended in accordance with the provisions of the Brunei Darussalam Companies Act, Cap. 39 ("the Act") and International Financial Reporting Standards according to the best of our information and the explanations given to us and as shown by the books of the Branch.

b) we have obtained all the information and explanations we required.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethcs for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Brunei Darussalam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Companies Act, Cap. 39 and International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

عرنست دان يڠ
Ernst & Young
Room 309A, 3rd Floor
Wisma Jaya, Jalan Pemancha
Bandar Seri Begawan BS8811
Negara Brunei Darussalam

PO Box 2162
Bandar Seri Begawan BS8674
Negara Brunei Darussalam

Tel: +673 223 9139
Fax: +673 223 9142
inquiries.eybrunei@bn.ey.com
ey.com

Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bank of China (Hong Kong) Limited – Brunei Branch (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to deregister the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

عرنسرت دان يڠ
Ernst & Young
Room 309A, 3rd Floor
Wisma Jaya, Jalan Pemancha
Bandar Seri Begawan BS8811
Negara Brunei Darussalam

PO Box 2162
Bandar Seri Begawan BS8674
Negara Brunei Darussalam

Tel: +673 223 9139
Fax: +673 223 9142
inquiries.eybrunei@bn.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bank of China (Hong Kong) Limited – Brunei Branch (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

ERNST & YOUNG
Public Accountants

LIM TECK GUAN
Registered Public Accountant

Brunei Darussalam
23 March 2018

Statement of Financial Position

For the period ended 31 December,	Note	Bank 2017 BS'000
Assets		
Cash and short term funds	4	1,973
Balances with Autoriti Monetari Brunei Darussalam	5	23,168
Deposits with banks and other financial institutions	6	17
Group balances receivable	7	67,357
Loans and advances to customers	8	49,124
Other assets	10	233
Property and equipment	11	3,082
Total Assets		144,954
Liabilities and Head Office Account		
Deposits from customers	12	97,696
Group balances payable	13	13,433
Other liabilities	14	1,134
Taxation	15	-
Head Office Account		32,691
Total Liabilities and Head Office Account		144,954

The accompanying notes form an integral part of the financial statements

Certification:

We certify that the above financial statements give a true and fair view of the financial position of the Brunei Operations of Bank of China (Hong Kong) Limited ("the Branch") as at 31 December 2017 and the financial performance and cash flows of the branch for the period ended 31 December 2017 in accordance with the provisions of the Brunei Darussalam Companies Act, Cap 39 and International Financial Reporting Standards as issued by the International Accounting Standards Board..

Wang Xiao Lin
General Manager

Wu Yuan
Deputy General Manager

Statement of Comprehensive Income

For the period ended 31st December,	Note	Bank 2017 BS'000
Income		
Interest income	17	2,037
Less: Interest expense	17	(180)
Net interest income		1,857
Fee and commission income		108
Fee and commission expense		(12)
Net fee income		96
Other operating income	18	286
Total operating income		2,239
Less:		
Staff costs	19	(3,130)
Other expenses	20	(2,250)
Total operating expenses		(5,380)
Less:		
Net impairment charges and recoveries	21	(168)
Loss from Operations		(3,309)
Loss before taxation		(3,309)
Less : Income tax expense	15	-
Loss for the period		(3,309)

The accompanying notes form an integral part of the financial statements

Statement of Changes in Head Office Account

Period ended 31 December 2017

	Bank			
	Assigned Capital	Statutory Reserve	Accumulated Losses	Total
For the period ended Dec 2017,	B$'000	B$'000	B$'000	B$'000
Additional Capital	36,000			36,000
Loss for the period	-	-	(3,309)	(3,309)
Balance as at 31/12/2017	**36,000**	-	**(3,309)**	**32,691**

The accompanying notes form an integral part of the financial statements

Cash flow statement

Year ended 31 December 2017	Bank
	2017
	BS'000
Cash flows from operating activities	
Loss before tax	(3,309)
Adjustment:	
Depreciation of property and equipment	336
Provision for loans losses	168
Operating loss before change in operating assets and liabilities	(2,805)
Change in operating assets and liabilities	
Balances with Autoriti Monetari Brunei Darussalam	(9,717)
Loans and advances to customers	(49,292)
Group balances receivable	(67,357)
Other assets	(233)
Deposits from customers	97,696
Deposits from banks and other financial institutions	(17)
Group balances payable	13,433
Other liabilities	1,134
Cash (used in) operating activities	(17,158)
Income tax paid	-
Net cash (used in) operating activities	(17,158)
Cash flow from investing activity	
Purchase of property and equipment	(3,418)
Net cash (used in) investing activity	(3,418)
Cash flow from financing activity	
Capital injection from Head Office	36,000
Net cash flows from financing activity	36,000
Net change in cash and cash equivalents	15,424
Cash and cash equivalents as at 31 December	15,424
Cash and cash equivalents comprises:-	
Cash and short term funds (Note 4)	1,973
Balances with Autoriti Monetari Brunei Darussalam (Note 5)	13,451
	15,424

The accompanying notes form an integral part of the financial statements

Notes to the Financial Statements

These notes form an integral part of the financial statements.

1. Corporate Information

Bank of China (Hong Kong) Limited, incorporated in Hong Kong, has registered a branch in Brunei on 18 June 2016. The registered office of its Brunei Branch (the "Branch") is at Kiarong Jaya Komplek, Lot No.56244, Simpang 22, Jalan Dato Ratna, Kampong Kiarong, Bandar Seri Begawan, BE1318, Brunei Darussalam.

The Branch is a segment of Bank of China (Hong Kong) Limited and is not a separately incorporated legal entity. The immediate holding company is BOC Hong Kong (Holdings) Limited incorporated in Hong Kong and the ultimate holding company is Central Huijin Investment Limited (PRC), China.

The Branch's resources and the existence are at the disposal of corporate management. Its assets are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of assets and liabilities, and its debts may result in claims against assets not appearing therein.

The accounts of the Branch are consolidated in that of BOC Hong Kong (Holdings) Limited. The consolidated accounts of BOC Hong Kong (Holdings) Limited are available to the public on the website.

The Branch is primarily involved in the business of banking and in the provision of financial services. There has been no significant change in the nature of this activity during the period.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the provisions of the Companies Act, Cap 39 and International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board.

These financial statements were authorised for issue by the management of the branch on 23 March 2018.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except as otherwise described below.

2.3 Functional and presentation currency

These financial statements are presented in Brunei dollars ("BND" or B$), which is the Branch's functional currency. All financial information presented in BND has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:-

- Individual impairment of financial assets – assessment of the timing and amount of future cash flows and collateral value and determination of prolonged and significant decline in market prices.
- Collective impairment of financial assets – assessment of country, industry and other portfolio risk, historical instruments with no active markets.
- Fair valuation of financial instruments – selection of valuation models and data inputs for financial instruments with no active markets
- Provision of income taxes – interpretation of tax regulations on certain transactions and computations.

3. Significant accounting policies

3.1 Property and equipment

All property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

Subsequent costs are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. The item is stated at cost less impairment until it begins to generate economic benefits, then the item is subsequently measured according to the measurement basis of its respective assets class. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost or revalued amount of such assets over their estimated useful lives as follows:

• Renovation	Over the period of 6 years
• Furniture, fixtures and equipment	3 to 10 years
• Motor Vehicles	5 years

The useful lives of assets are reviewed, and adjusted if appropriate, as at the end of each reporting period.

At the end of each reporting period, both internal and external sources of information are considered to determine whether there is any indication that property and equipment, are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such an impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment loss is reversed through the premises revaluation reserve or the income statement as appropriate.

Gains or losses on disposals are determined as the difference between the net disposal proceeds and the carrying amount, relevant taxes and expenses. These are recognised in the income statement on the date of disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained earnings and is not reclassified to the income statement.

3.2 Foreign Currency Transactions

On initial recognition, transactions in foreign currencies are recorded in the functional currency of the Branch at the exchange rate ruling at the transaction date. Subsequent to initial recognition, monetary assets and monetary liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in the foreign currency are translated using the exchange rate at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at reporting date are recognised in the profit or loss statement.

3.3 Financial assets and financial liabilities

The Branch classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale financial assets. The Management determines the classification of investments at initial recognition. The classification depends on the purpose for which the financial assets are held. All financial assets are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets and financial liabilities are included in their initial carrying amounts.

(1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including placements with and advance to banks and other financial institutions, investment debt securities without an active market and loans and advances to customers. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses.

(2) Financial liabilities held at amortised cost

Financial liabilities are classified as amortised cost instruments.

Recognition and derecognition of financial instruments

Loans and receivables (except investment securities without an active market) are recognised when cash is advanced to the borrowers. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Branch has transferred substantially all risks and rewards of ownership. When the Branch neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the branch either continues to recognise the transferred financial asset to the extent of its continuing involvement if control remains or derecognise it if there is no retained control.

Financial liabilities are derecognised from the balance sheet when and only when the obligation specified in the contract is discharged, cancelled or expires. If the Branch purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in net trading gain/loss.

Fair value measurement

The Branch measures its premises and investment properties and certain financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal market or the most advantageous market accessible by the Branch at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Despite the Branch measures the fair value of these groups of financial instruments on a net basis, the underlying financial assets and financial liabilities are separately presented in the financial statements unless the offsetting criteria are fulfilled.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

If the market for assets or liabilities is not active, the Branch uses valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.5 Impairment of financial assets

The Branch assesses as at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the reliably estimated future cash flows of the financial asset or group of financial assets. Objective evidence that a financial asset or group of financial assets may be impaired includes observable data that comes to the attention of the Branch about the following probable loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payment;

(iii) the Branch granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

(v) the disappearance of an active market or downgrading below investment grade level for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

• adverse changes in the payment status of borrowers in the group; or
• national or local economic conditions that correlate with defaults on the assets in the group.

(1) Assets carried at amortised cost

The Branch first assesses whether objective evidence of impairment exists individually for financial assets. If the branch determines that no individually assessed impairment is provided, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Branch may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

If, in a subsequent period, the amount of allowance for impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss to the extent of its decrease is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loans whose terms have been renegotiated with substantial difference in the terms are no longer considered to be past due but are treated as new loans.

3.6 Current and deferred income taxes

Tax expenses for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in the jurisdiction where the Branch operates and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax liabilities are provided in full on all taxable temporary differences. Deferred income tax assets are recognised on deductible temporary differences, the carry forward of any unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised. Deferred income tax is charged or credited in the income statement.

3.7 Interest income and expense and fee and commission income and expenses

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the written down value using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Subsequent unwinding of the discount allowance is recognised as interest income.

Fee and commission income and expenses that are not an integral part of the effective yield are recognised on an accrual basis ratably over the period when the related service is provided, such as administrative fee, asset management fee and custody services fee.

3.8 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.9 Employee benefits

Salaries, cash bonuses, allowances, commissions are defined contributions under regulations are recognised in the income statement when incurred. Leave entitlements are recognised when they accrue to employees. Provision for leave entitlements is made based on contractual terms with adjusted for expected attrition.

The Branch took part in the compulsory pension contribution with Tabung Amanah Pekerja (TAP) and Supplemental Contributory Pension Fund (SCP), where fund for the payment of monthly contributions are made to the TAP and SCP based on a percentage of the gross emoluments excluding certain allowances. The percentage of contributions was determined by TAP and SCP and provided for all members of the local staff.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities and certificates of deposit.

3.11 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.12 Impairment of non-financial assets

At each reporting date, the Branch reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less cost to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

For the assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.13 Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Branch in 2017

Standards/ Amendments	Content	Applicable for financial years beginning on/after	Currently relevant to the Branch
IFRS 9	Financial Instruments	1 January 2018	Yes
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Yes
IFRS 16	Leases	1 January 2019	Yes

Further information about those IFRSs that are expected to be applicable to the Branch as follows:

- IFRS 9 Financial Instruments

(i) Classification and Measurement

Financial assets

Financial assets are required to be classified into one of the following measurement categories: (1) measured subsequently at amortised cost, (2) measured subsequently at fair value through other comprehensive income (all fair value changes other than interest accrual, amortisation and impairment will be recognised in other comprehensive income) or (3) measured subsequently at fair value through profit or loss. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments.

Financial liabilities

Except for the two substantial changes described below, the classification and measurement requirements of financial liabilities have been basically carried forward with minimal amendments from IAS 39.

The accounting for fair value option of financial liabilities were changed to address own credit risk. The amount of change in fair value attributable to changes in the credit risk of the financial liabilities will be presented in other comprehensive income. The remaining amount of the total gain or loss is included in the income statement. If this creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in the income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to the income statement but may be transferred within equity. This removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. It also means that gains caused by the deterioration of an entity's own credit risk on such liabilities will no longer be recognised in profit or loss.

(ii) Impairment

The standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, it requires entities to account for 12 months expected credit losses from inception when financial instruments are first recognised and to recognise full lifetime expected credit losses on a more timely basis when there have been significant increases in credit risk since initial recognition. The impairment for financial instruments that are subsequently measured at amortised cost, fair value through other comprehensive income (debt instruments), loan commitments and financial guarantees will be governed by this standard.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers". IFRS 15 applies a single model and specifies the accounting treatment for all revenue arising from contracts with customers. The new standard is based on the core principle that revenue is recognised to reflect the consideration expected to be entitled when control of promised good or service transfers to customer. It is also applicable to the recognition and measurement of gains or losses on the sale of some non-financial assets such as properties or equipment that are not an output of ordinary activities. IFRS 15 also includes a set of disclosure requirements about revenue from customer contracts. The new standard will replace the separate models for goods, services and construction contracts stipulated in different standards under the current IFRS. The Branch is considering the financial impact of the standard.

- IFRS 16 Leases

IFRS 16, "Leases". IFRS 16 supersedes the existing standard and interpretations related to leases. It applies a single control model to identify leases and distinguish between leases and service contracts. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and the right-of-use assets and lease liabilities recognised except under short term and low value leases. There are no significant changes to the lessor accounting requirements. The standard is applied retrospectively. Early application is permitted for entities that have also adopted IFRS 15 "Revenue from Contracts with Customers". The Branch is considering the financial impact of the standard and the timing of its application.

4. Cash and short term funds

	2017
	BS'000
Cash in hand	1,973
	1,973

5. Balance with Autoriti Monetari Brunei Darussalam

	2017
	BS'000
Balances placed with AMBD	13,451
Minimum Cash Reserve	9,717
	23,168

The minimum cash reserve is maintained as required by the provisions of Section 45 of the Brunei Darussalam Banking Order 2006. This is not available for use in the Branch's day to day operations. At present the minimum cash reserve requirement is 6% of the deposit liabilities and is not earning interest.

6. Deposits with banks and other financial institutions

	2017
	BS'000
At amortised cost	17
	17

7. Group balances receivable

Name of the company	2017 BS'000
Bank of China (Hong Kong) Limited, Hong Kong	67,357
	67,357

8. Loans and advances to customers

Loans and advances analysed by type:

	2017 B$'000
Term loans:	
- Property loans	9,907
- Other term loans	39,385
Gross loan and advances	**49,292**
Less: Loan loss provisions	
- Individual (note 21)	
- Collective (note 21)	(168)
Net loan and advances	**49,124**

9. Non-performing loans and advances

	2017 B$'000
Loans and advances	-
Gross amount	-
Less: Loan loss impairment	
- Specifically assessed	-
- Collectively assessed	-
Net amount	-

Movement in non-performing loans and advances is as follows:-

	2017 B$'000
Classified during the year	-
Reclassified as performing	-
Write-offs	-
Balance at 31 December	-

10. Other assets

	2017 BS'000
Accrued Receivable	20
Prepayments	147
Sundry Debtors	66
	233

11. Property and equipment

	Renovation BS'000	Furniture, fixtures and equipment BS'000	Motor Vehicles BS'000	Total BS'000
Cost				
Additions during the period	1,368	1,893	157	3,418
Balance at 31 December 2017	1,368	1,893	157	3,418
Accumulated depreciation and impairment				
Depreciation charge for the period	(95)	(237)	(4)	(336)
Balance at 31 December 2017	(95)	(237)	(4)	(336)
Net Book Value	1,273	1,656	153	3,082

12. Deposits from Customers

Analysed by type of deposit:

	2017 BS'000
Demand deposits	43,262
Saving deposits	54,287
Fixed deposits	147
Others	-
	97,696

Analysed by type of customer:

	2017 BS'000
Business enterprises	91,454
Individuals	6,242
Others	-
	97,696

13. Group balances payable

Name of Company	2017 B$'000
Bank of China (Hong Kong) Limited, Hong Kong	13,433
	13,433

14. Other liabilities

	2017 B$'000
Creditors and accruals	1,074
Other	60
	1,134

15. Tax Expense

The tax charge recognised in the profit or loss comprises the following:

	2017 B$'000
Current tax expense	
Current year	-
	-

The tax expense on the results of the Branch differs from the amount that would arise using the Brunei Darussalam statutory rate of income tax due to the following:

	2017 B$'000
Reconciliation of effective tax rate	
Loss before income tax	(3,309)
Tax calculated at a tax rate of 18.5%	(612)
Further deduction	(6)
Deferred tax benefits not recognised	618
Total	-

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:-

	2017 B$'000
Deductible temporary differences – property and equipment	97
Tax losses on capital account	144
Tax losses on revenue account	3,004

The deductible temporary differences and tax losses on capital account have no expiry date. The tax losses on revenue account will expire within 6 years from the year of assessment.

Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable profit will be available against which they can be realised.

16. Commitments and Contingencies

In the normal course of business, the Branch makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. As the Contingencies and Commitments may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

	2017 BS'000
Contingencies	
Letters of credit	-
Guarantees, bonds	6,573
Shipping guarantees	-
Acceptances	-
Others	-
Sub total	6,573
Commitments	
Undrawn credit lines	13,017
Others	-
Sub total	13,017
Total contingencies and commitments	19,590

17. Net interest income and interest expense

	2017
	BS'000
Interest income	
Group balances receivable	1,722
Loans and advances to customers	315
Total Interest Income	2,037
Interest Expense	
Deposits from customers	90
Group balances payable	90
Total Interest Expense	180
Net Interest Income	1,857

18. Other Operating Income

	2017
	BS'000
Gain on foreign currency exchange	286
	286

19. Staff Costs

	2017
	BS'000
Wages and salaries	1,642
Allowance and bonuses	1,318
Local Contribution Plan	58
Others	112
	3,130

20. Other expenses

	2017
	BS'000
Administation and general expenses	533
Advertising and publicity	329
Auditor's fees	38
Depreciation	336
EDP Expenses	432
Others	237
Premises and equipment expenses	54
Rental Expenses	217
Professional fees	74
	2,250

21. Net impairment charges and recoveries

	2017
	BS'000
Net impairment loss on loan and advances:	
-Individual impairment	-
- Collective impairment	168
	168

Movement in allowance for impairment loss is as follows:

	2017
	BS'000
Individual allowance for impairment	
Charge for the year	-
Write-offs	-
Balance at 31 December	-
Collective allowance for impairment	
Charge for the year	168
Write-offs	-
Balance at 31 December	168
Total allowance for impairment	168

22. Accounting Classifications and fair values

The branch's classification of its financial assets and liabilities is summarised in the table below.

	Carrying amount		
	Loan and receivables B$'000	**Financial liabilities at amortised cost B$'000**	**Total B$'000**
As at 31 December 2017			
Cash and short term funds	1,973	-	1,973
Balances with Autoriti Monetari Brunei Darussalam	23,168	-	23,168
Deposits with banks and other financial institutions	17	-	17
Group balances receivable	67,357		67,357
Loans and adavances to customers	49,124	-	49,124
Other assets (excluding prepayments)	86	-	86
Total assets	141,725	-	141,725
As at 31 December 2017			
Deposits from customers	-	97,696	97,696
Group balances payable		13,433	13,433
Other liabilities		1,134	1,134
Total liabilities	-	112,263	112,263

Determination of fair value

The methodologies and assumptions used in estimating fair value depend on the terms and risk characteristics of the various instruments and include the following:

Loans and advances

Fair value of loans and advances is estimated by discounting anticipated cash flows (including interest at contractual rates). Performing loans are grouped, to the extent possible, into homogenous pools segregated by maturity and the coupon rates of the loans within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics.

For non-performing uncollateralised loans and advances, an estimate is made of the time period to realise these cash flows and the fair value is estimated by discounting these cash flows at the effective interest rate. For non-performing loans and advances where collateral exists, the fair value is the lesser of the carrying value of the loans and advances, net of specific allowances, or the fair value of the collateral, discounted as appropriate.

Based on the methodology described above, the Branch has determined that the carrying values of loans and advances approximate fair values.

Deposits by customers

Deposit by customer is calculated using discounted cash flows models, based on the deposit type and its related maturity, applying either market rates, where applicable or current rates offered for deposits of similar remaining maturities.

Based on the methodology described above, the Branch has determined that the carrying value of deposits by customers approximate fair values.

Other financial assets and liabilities

At the reporting date, the carrying amounts of the other financial assets and liabilities (including cash and short term funds, balances with Autoriti Monetari Brunei Darussalam, group balances receivable, other assets, deposits with banks and other financial institutions, group balances payable and other liabilities) approximate their fair value because of the short periods to maturity.

23. Operating Leases

The Branch leases operation and office premises under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

As at 31 December, the Branch has commitments for future minimum lease payments under non-cancellable operating lease as follows:

	2017
	B$'000
Gross operating lease payable:	
Within one year	186
Later than one year and less than five years	109
After 5 years	-
	295

24. Related party transactions

(i) Related party shall include Key Management Personnel (KMP), close relatives and other entities. Close relative of a KMP shall include that person's children and spouse. Other related entities shall include entities which are controlled and/or significantly influenced by the KMP or their close relatives.

For the purpose of these financial statements, parties are considered to be related to the Branch if the Branch or its Head Office has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Branch and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

In the normal course of its banking business, the Branch has carried out transactions with related parties, principally the Head Office which is the ultimate controlling party of the Branch and with other branches and related corporations on terms agreed between the parties. Material related party transactions are separately disclosed in the relevant notes to the financial statements.

key management personnel compensation

	2017
	BS'000
Short-term employee benefits	717
Post-employment benefits	-
	717

Income Statement

31-Dec-17 BS'000	KMP	Close relatives	Other related entities
Income			
Interest Income	-	-	-
Other Income	-	-	-
Total	-	-	-
Expenses			
Interest Expense	-	-	-
Other Expenses			-
Total	-	-	-

Balance Sheet			
Assets			
Loans and advances	-	-	-
Credit Cards	-	-	-
Other Assets	-	-	-
Total	-	-	-
Liabilities			
Deposits	-	-	-
Total	-	-	-
Off Balance Sheet items			
Other commitments and contingencies	-	-	-
Total	-	-	-

(ii) The Branch's related party, shall include Parent, Entities with significant influence, subsidiaries, associated and other related companies.

a. Balance Sheet

	2017 BS'000
Assets	
Loans and adavances (Exc. Credit cards)	-
Credit cards	-
Other Assets	67,357
Total	67,357
Liabilities	
Deposits	
Borrowings	(8,553)
Other Liabilities	(4,880)
Total	(13,433)
Off-balance sheet items	
Other commitments and contingencies	-
Total	53,924

b. Income Statement

	2017 BS'000
Income	
Interest Income	1,722
Other Income	-
Total	1722
Expenses	
Interest Expense	90
Fees	-
Other Expenses	-
Total	90

Terms and conditions of transactions with related parties

The other assets with and borrowings from related parties as at year end are made on terms equivalent to those that prevail in arm's length transactions. The balances at the year-end are unsecured and interest bearing and settlement occurs in cash.

The other liabilities from related parties as at year end are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are charge with interest free and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Branch has not recorded any impairment of receivables and payables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

25. Capital management

The Branch's approach to capital management is to ensure that the Branch maintains adequate level of capital necessary to support its business and growth, to meet regulatory capital requirements at all times and to maintain a good credit rating.

Head office committees oversee the Branch's capital planning and assessment process. Any capital management plans, the contingency capital plans, and any capital management actions are submitted to Head Office senior management team and/or Head Office board for approval.

As a branch of a foreign entity, Head Office is the primary equity capital provider to the Branch, and this is done via Head Office's own retained earnings and capital issuance. Capital generated by the branch in excess of planned requirements is returned to Head Office by way of repatriations.

The Branch is required to maintain sufficient Capital Funds by the local regulator, Autoriti Monetari Brunei Darussalam (AMBD), to ensure that the relevant regulatory limits as set out in the Brunei Banking Order are complied with. Capital Funds, as defined under by AMBD, is used for the purpose of the above compliance. Besides the Capital Funds requirements, the Branch is also required to set aside the minimum level of eligible assets in Brunei in proportion to its protected deposit liabilities pursuant to the local regulatory requirements. The Branch has complied with the abovementioned regulatory requirements during the period.

The Branch has comply with the minimum capital adequacy ratio for the bank to meet as required under the Banking Order, 2006 and the methodology of the bank use for calculating these ratios under the Basel II, Pillar I Framework.

26. Financial risk management

The main financial risks that Branch is exposed to and how they are being managed are set out below:-

(i) Credit risk

Credit risk is defined as the risk of loss arising from any failure by a borrower or a counterparty to fulfil its financial obligations as and when they fall due.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. The process includes monthly review of all non-performing and special mention loans, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review and audit are performed regularly to proactively manage any delinquency, minimise undesirable concentrations, maximise recoveries, and ensure that credit policies and procedures are complied with. Past dues and credit limit excesses are tracked and analysed by business and product lines. Significant trends are reported to the Branch's management and Head Office committees.
The maximum exposure to credit risk is limited to the amounts on the statement of financial performance, without taking into account the fair value of any collateral or master netting arrangements.

The credit risk from Cash and short term funds, Balances with Autoriti Monetari Brunei Darussalam, Deposits with banks and other financial institutions, Group balances receivables and other assets are managed by dealing with approved counterparties and within the credit limits.

The table that follows show the maximum exposure to credit risk for the components of the statement of financial position.

	Maximum exposure
	31-Dec-17
	BS'000
Credit Exposure for On-Statement of Financial Position financial assets:	
Cash and short term funds	1,973
Balances with Autoriti Monetari Brunei Darussalam	23,168
Deposits with banks and other financial institutions	17
Group balances receivable	67,357
Loans and advances to customers	49,292
Other assets	86
Credit Exposure for Off-Statement of Financial Position financial assets:	
Letters of credit	-
Guarantees, bonds	6,573
Shipping guarantees	-
Acceptances	-
Undrawn credit lines	13,017
Total maximum credit exposures	161,483

As a fundamental credit principle, the Branch does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt service ability.

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically and covers a100% of a credit risk associated with the respective financial asset. The main type of collateral taken by the Branch is residential and commercial properties. Policies and processes are in place to monitor collateral concentration.

Collateral

Collateral is held to mitigate risk exposures. The Branch credit risk mitigation policy determines the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements.

Collateral types that are eligible for risk mitigation include: cash, residential and commercial properties and industrial property, fixed assets such as machinery, marketable securities, commodities, bank guarantees and letters of credit.
Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Regular valuation of collateral is required in accordance with the Branch's credit risk policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposures.

An estimate of the fair value of collateral and other credit enhancements held against loans and advances to customers and banks, after adjusting for the effect of over-collateralisation and excluding provision made for impairment losses, is shown below:-

	2017
	BS'000
Gross bills receivable, loans and advances to customers	49,292
Other Contingencies and commitments	19,590
Less: financial effect of collateral held	
-Properties	11,742
-Guarantees	11,820
-Others	
Net exposure from loans and advances to customers and off statement of financial position items	45,320

For other assets in the statement of financial position, the exposure to credit risk equals their carrying amount.

Neither past due nor impaired

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.

Impaired loans and advances

Impaired loans and advances refer to non-performing loans and advance for which the Branch determines that it is possible that it will be unable to collect all principal and interest due according to the contractual terms of the loans.

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.

The Branch's adopts the Head Office's internal loans grading criteria which divides credit assets into five categories as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Branch's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Branch expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Ageing analysis of loans and advances that classified under neither past due nor impaired is summarised in the table that follows:-

	2017			
	Pass	Special mention	Substandard or below	Total
	B$'000	B$'000	B$'000	B$'000
Loans & advances to customers				
Corporate				
-Commercial loans	49,292	-	-	49,292
	49,292	-	-	49,292

There are no loans and advances that classified under impaired and past due but not impaired.

The following tables present an analysis of other financial assets that are neither past due nor impaired as at 31 December:-.

	2017	
	Unrated	**Total**
	B$'000	**B$'000**
Cash and short term funds	1,973	1,973
Balances with Autoriti Monetari Brunei Darussalam	23,168	23,168
Deposits with banks and other financial institutions	17	17
Group balances receivable	67,357	67,357
Other assets	86	86
	92,601	**92,601**

The Branch monitors concentrations of credit risk by sector. The Branch's maximum exposure to credit risk before taking into account any collateral held other credit enhancements and netting arrangements, is shown in the table below.

	Loans and advances to customers
	B$'000
Manufacturing	30,858
Traders	6,682
Services	1,845
Residential & Commercial Property	9,907
	49,292
Less: Collective Allowance	(168)
	49,124

(ii) Market risk

Market Risk is 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. Market Liquidity Risk is the risk of financial loss caused by inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.

Foreign exchange risk

Foreign exchange risk is the risk to earnings and economic value of foreign currency assets, liabilities and financial derivatives caused by fluctuations in foreign exchange rates.

The Branch's foreign exchange exposures comprise non-trading foreign exchange exposure principally derived from customer businesses.

Foreign exchange risk is managed through policies and risk limits approved by the Asset and Liability Committee ("ALCO"). The limits, such as exposure by currency are independently monitored by Risk Management.

A summary of quantitative data about the Branch's net exposure to major foreign currencies is provided below, followed by a sensitivity analysis (assuming all other risk variables remain constant):

	31-Dec-17
	BS'000
Net foreign currency exposure:	Assets/(Liabilities)
Euro	58
United States Dollar	(89)
Hong Kong Dollar	186
	155

A 10% strengthening of BND against the foreign currencies as at year end, would have increased/(decreased) profit or loss by the amounts shown below. No impact would result on the Branch's equity balance as a result of this change in foreign currency rates. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit/(loss)
	BS'000
31 December 2017	
10% Strengthening	(16)

A 10% weakening of BND against the foreign currencies as at year end would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

(iii) Interest rate risk

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:

-Repricing risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;

- 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;

- Yield curve risk: non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value

The Branch's risk management framework applies also to interest rate risk management. The ALCO exercises its oversight of interest rate risk in accordance with the "BOCHK Group Banking Book Interest Rate Risk Management Policy" approved by Risk Committee ("RC"). RMD (Interest Rate and Liquidity Risk Management) is responsible for interest rate risk management. With the cooperation of the Asset and Liability Management Division of Financial Management Department and Investment Management, RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to the senior management and RC, etc.

The Branch sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), sensitivity analysis (Greeks,) net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV"), etc. The indicators and limits are classified into different levels, which are approved by the Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO"), ALCO, RC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to RC for approval.

NII and 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. Limits are set by the RC on these two indicators to monitor and control the Group's banking book interest rate risk.

	Impact on net interest income over the next twelve months at 31 December	Impact on reserves at 31 December
	2017	2017
	BND$'m	BND$'m
Total	0.50	-

(iv) Liquidity risk

Liquidity risk is the risk that the Branch fails to provide sufficient funds to grow assets or pay due obligations, and need to bear an unacceptable loss. The Branch's maintains sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and to survive with net positive cumulative cash flow in extreme scenarios.

The Branch's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Branch's primary source of funds. To ensure stable and sufficient source of funds are in place, the Branch actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Branch adjusts its asset structure (including loans, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Branch is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Branch has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

The RC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by RC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Branch are in accordance with risk appetite and policies as set by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for overseeing the Branch's liquidity risk. It cooperates with the Asset and Liability Management Division of Financial Management Department, Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The following table shows cashflow 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.

As at 31-Dec-2017	Carrying Amount BS'000	Up to 1 month BS'000	1-3months BS'000	3-12months BS'000	1-3 years BS'000	More than 3 years BS'000	No specific maturity BS'000	Total BS'000
Assets								
Cash and cash equivalents	1,973	1,973	-	-	-	-	-	1,973
Loans and advances	49,124	270	534	6,510	27,948	19,162	-	54,424
Balance with Autoriti Monetari Brunei Darussalam	23,168	13,451	-	-	-	-	9,717	23,168
Deposits with banks and other financial institutions	17	-	-	17	-	-	-	17
Group balances receivable	67,357	67,200	103	54	0	-	-	67,357
Other assets	86	20	-	-	10	56	-	86
Total Assets	141,725	82,914	637	6,581	27,958	19,218	9,717	147,025
Liabilities								
Deposits from customers	97,696	97,552	90	54	0	-	-	97,696
Group balances payable	13,433	8,553	-	-	4,880	-	-	13,433
Other liabilities	1,134	20	745	369	-	-	-	1,134
Taxation	-	-	-	-	-	-	-	-
Total Liabilities	112,263	106,125	835	423	4,880	-	-	112,263
Net on-balance sheet open position	29,462	(23,211)	(198)	6,158	23,078	19,218	9,717	34,762
Net off balance sheet open position	13,018	13,018	123	6,450	-	-	-	19,591
Net Maturity mismatch	16,444	(36,229)	(321)	(292)	23,078	19,218	9,717	15,171

27. Current and Non-Current Assets and Liabilities

Current assets and liabilities (expected to be settled or recovered within the next 12 months) and Non-Current assets and liabilities (not expected to be settled or recovered within the next 12 months) are as follows:-

	Bank		
Assets	**Current**	**Non-current**	**Total**
Cash and short term funds	1,973		1,973
Balances with Autoriti Monetari Brunei Darussalam	23,168		23,168
Deposits with banks and other financial institutions	17		17
Group balances receivable	67,357		67,357
Loans and advances to customers	4,206	44,918	49,124
Other assets	167	66	233
Property and equipment		3,082	3,082
Total Assets	96,888	48,066	144,954
Liabilities and Head Office Account			
Deposits from customers	97,696		97,696
Group balances payable	8,553	4,880	13,433
Other liabilities	1,134		1,134
Taxation	-	-	-
Head Office Account	-	32,691	32,691
Total Liabilities and Head Office Account	107,383	37,571	144,954

28. Significant post balance sheet events

There is no significant post balance sheet event.

29. Comparative figures

There are no comparative figures as this is the first set of financial statements of the Branch.