



中國銀行(香港) 文萊分行  
BANK OF CHINA (HONG KONG) BRUNEI BRANCH

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(Incorporated in Hong Kong)

**Brunei Darussalam Branch**

Registered No. RFC20001023

Branch Accounts as at and for the year ended

**31 December 2021**

(With comparative balances  
as at and for the year ended

31 December 2020)

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### **Notation**

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

The above documents may be obtained upon request via hard copy at Bank of China (Hong Kong) Limited, Brunei Branch located at Kiarong Jaya Komplek, Lot 56244, Spg 22, Jalan Ratna, Kampong Kiarong, Bandar Seri Begawan, BE1318, Brunei Darussalam or electronically via [brunei\\_branch@bochk.com](mailto:brunei_branch@bochk.com).



## **Independent Auditor's Report**

To the Board of Directors and Management of  
**Bank of China (Hong Kong) Limited - Brunei Darussalam Branch**  
Kiarong Jaya Komplek, Lot 56244, Spg 22,  
Jalan Ratna, Kampong Kiarong  
Bandar Seri Begawan

## **Report on the Audit of the Financial Statements**

### ***Our Opinion***

In our opinion, the accompanying financial statements of Bank of China (Hong Kong) Limited - Brunei Darussalam Branch (the "Branch") give a true and fair view of the financial position of the Branch as at 31 December 2021, and its financial performance, changes in Head Office account and cash flows for the year then ended in accordance with the provisions of the Brunei Darussalam Companies Act, Chapter 39 (the "Act") and the International Financial Reporting Standards ("IFRSs").

### ***What we have audited***

The financial statements of the Branch comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the statement of changes in Head Office account for the year ended 31 December 2021;
- the statement of cash flows for the year ended 31 December 2021; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### ***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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence***

We are independent of the Branch in accordance with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the "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 Code.



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### ***Other Information***

Management is responsible for the other information. The other information comprises the corporate governance set out in Appendix 1, but does not include the financial statements of the Branch and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Branch or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

### ***Other Matter***

The financial statements of the Branch as at and for the year ended 31 December 2020 were audited by another auditor, who expressed an unmodified opinion on those statements on 30 March 2021.

### ***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 Act and the IFRSs 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.

In preparing the financial statements, management is responsible for assessing the ability of the Branch 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 liquidate 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.



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### ***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.
- 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.



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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.

#### **Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Branch have been properly kept in accordance with the provisions of the Act. We have obtained all the information and explanations that we required.

#### **PricewaterhouseCoopers Services**

A handwritten signature in blue ink, appearing to read "Chai Xiang Yuin", written over a faint circular stamp.

Chai Xiang Yuin  
Partner

Brunei Darussalam  
18 April 2022

**Statement of Financial Position**

As at 31 December 2021

(With comparative balances as at 31 December 2020)

	Notes	2021 B\$'000	2020 B\$'000
<b>Assets</b>			
Cash	4	1,552	2,840
Balances with Brunei Darussalam Central Bank	5	57,709	47,557
Deposits with banks and other financial institutions	6	611	193
Government sukuk	7	10,875	6,342
Group balances receivable	8	139,011	222,396
Loans and advances	9	378,892	307,454
Other assets	10	582	601
Property and equipment	11	1,216	1,803
Intangible assets	12	56	279
Deferred tax assets, net	13	132	47
<b>Total assets</b>		<b>590,636</b>	<b>589,512</b>
<b>Liabilities and Head Office Account</b>			
Deposits from customers	14	235,024	288,473
Deposits from banks and other financial institutions	15	22,957	-
Group balances payable	16	205,791	183,573
Other liabilities	17	22,402	17,676
Provision for taxation	18	949	22
Head office account		103,513	99,768
<b>Total liabilities and head office account</b>		<b>590,636</b>	<b>589,512</b>

The accompanying notes form an integral part of the financial statements.

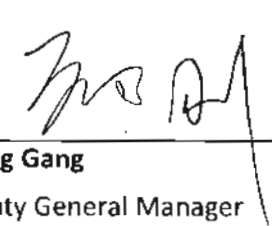
**Certification:**

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 2021 and the financial performance and cash flows of the Branch for the year then ended in accordance with the provisions of the Brunei Darussalam Companies Act, Cap 39 and the International Financial Reporting Standards as issued by the International Accounting Standards Board.


  
Li Feng

General Manager

18 April 2022


  
Zheng Gang

Deputy General Manager

**Statement of Profit or Loss and Other Comprehensive Income**

For the year ended 31 December 2021

(With comparative balances for the year ended 31 December 2020)

	Notes	2021 B\$'000	2020 B\$'000
Interest income	20	7,265	8,862
Interest expense	20	(777)	(2,362)
<b>Net interest income</b>		<b>6,488</b>	<b>6,500</b>
Fee and commission income	21	4,965	3,402
Fee and commission expense	21	(464)	(284)
<b>Net fee and commission income</b>		<b>4,501</b>	<b>3,118</b>
Other operating income (loss)	22	1,072	(195)
<b>Total operating income</b>		<b>12,061</b>	<b>9,423</b>
Staff costs	23	(4,882)	(4,745)
Other expenses	24	(2,456)	(2,405)
<b>Total operating expenses</b>		<b>(7,338)</b>	<b>(7,150)</b>
<b>Net operating income</b>		<b>4,723</b>	<b>2,273</b>
Net impairment charges	25	(98)	(344)
<b>Profit before taxation</b>		<b>4,625</b>	<b>1,929</b>
Tax expense	18	(880)	(272)
<b>Profit for the year</b>		<b>3,745</b>	<b>1,657</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>3,745</b>	<b>1,657</b>

The accompanying notes form an integral part of the financial statements.



**Statement of Changes in Head Office Account**

For the year ended 31 December 2021

(With comparative balances for the year ended 31 December 2020)

		<b>Assigned capital</b>	<b>Statutory reserve</b>	<b>Fair value reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<b>Note</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>
Balance as at 1 January 2020		60,000	783	-	(2,709)	58,074
Additional capital		40,037	-	-	-	40,037
Profit for the year		-	-	-	1,657	1,657
Transfer during the year	<b>26</b>	-	829	-	(829)	-
Balance as at 31 December 2020		<b>100,037</b>	<b>1,612</b>	-	<b>(1,881)</b>	<b>99,768</b>
Profit for the year		-	-	-	3,745	3,745
Transfer during the year	<b>26</b>	-	1,873	-	(1,873)	-
Balance as at 31 December 2021		<b>100,037</b>	<b>3,485</b>	-	<b>(9)</b>	<b>103,513</b>

The accompanying notes form an integral part of the financial statements.

**Statement of Cash Flows**

For the year ended 31 December 2021

(With comparative balances for the year ended 31 December 2020)

	Notes	2021 B\$'000	2020 B\$'000
<b>Cash flows from operating activities</b>			
<b>Profit before taxation</b>		<b>4,625</b>	<b>1,929</b>
Adjustment for non-cash items:			
Depreciation of property and equipment and intangible assets	24	675	673
Depreciation of right-of-use assets	24	215	221
Net interest income	20	(6,488)	(6,500)
Net impairment loss on financial assets	25	98	344
<b>Operating loss before changes in operating assets and liabilities</b>		<b>(875)</b>	<b>(3,333)</b>
<b>Changes in operating assets and liabilities</b>			
(Increase) decrease in:			
Balances with Brunei Darussalam Central Bank		(6,860)	(13,571)
Deposits with banks and other financial institutions		(418)	(48)
Group balances receivable		82,449	(40,226)
Loans and advances		(71,445)	(168,821)
Other assets		19	(281)
(Decrease) increase in:			
Deposits from customers		(53,535)	114,418
Deposits from banks and other financial institutions		22,947	-
Group balances payable		22,211	76,366
Other liabilities		4,932	(38,430)
<b>Cash used in operations</b>		<b>(575)</b>	<b>(73,926)</b>
Interest received		8,109	8,693
Interest paid		(668)	(2,351)
Income tax paid		(38)	-
<b>Net cash generated from (used in) operating activities</b>		<b>6,828</b>	<b>(67,584)</b>
<b>Cash flows from investing activities</b>			
Net (investment in) redemption of Government sukuk		(4,508)	13,101
Purchase of property and equipment	11	(80)	(254)
<b>Net cash flows (used in) generated from investing activities</b>		<b>(4,588)</b>	<b>12,847</b>
<b>Cash flows from financing activities</b>			
Additional capital from the Head Office		-	40,037
Interest paid on lease liabilities	17	(6)	(11)
Payment of principal portion of lease liabilities	17	(230)	(196)
<b>Net cash flows (used in) generated from financing activities</b>		<b>(236)</b>	<b>39,830</b>
<b>Net change in cash and cash equivalents</b>		<b>2,004</b>	<b>(14,907)</b>
Cash and cash equivalents as at beginning of the year		21,509	36,416
<b>Cash and cash equivalents as at end of the year</b>		<b>23,513</b>	<b>21,509</b>

The accompanying notes form an integral part of the financial statements.

## **Notes to the Financial Statements**

As at and for the year ended 31 December 2021

(With comparative balances and notes as at and for the year ended 31 December 2020)

(All amounts are shown in thousands of Brunei Dollar unless otherwise stated)

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), incorporated in China.

The accounts of the Branch are consolidated with 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 year.

### **2. Basis of preparation**

#### **2.1 Statement of compliance**

The financial statements have been prepared in accordance with the provisions of the Companies Act, Chapter 39 (the 'Act') 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 18 April 2022.

#### **2.2 Basis of measurement**

The financial statements have been prepared under the historical cost basis unless otherwise stated.

## 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:

(i) *Impairment allowance on loan and advances (Note 9 and 25)*

The Branch reviews its credit portfolios to assess impairment at least on a quarterly basis. Under IFRS 9, the measurement of impairment losses across all categories of credit asset requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Branch's Expected Credit Loss (ECL) calculations are outputs of complex models. The choice of variable inputs and their interdependencies involves a series of assumptions. ECL models are developed by leveraging on existing internal rating models and loss estimates, behavioural models and forecasting factors. Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit rating models, which assign Probability of Default to the individual ratings;
- Significant credit deterioration criteria (including internal credit rating downgrade, days past due, drop in mark-to-market and qualitative assessment) for assessing whether the financial assets' impairment allowance should be measured on a lifetime ECL basis;

- The segmentation of financial assets according to similar risk and default characteristics when their ECL is assessed on a collective basis;
- Development of ECL models, including the determination of macroeconomic factor forecasts and the effect on Probability of Default, Loss Given Default and Exposure at Default; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings.

It is the Branch's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

*(ii) Impairment of non-financial assets*

The Branch assesses impairment of non-financial assets such as property and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of the Branch's non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. The factors that the Branch considers when assessing recoverability include significant under performance relative to expected historical or projected future operating results, significant negative industry or economic trends, or significant changes in the manner of use of the assets or strategy for the business. If any such indication exists, the asset is tested for impairment by comparing its recoverable amount to its carrying amount.

Management believes that no impairment is necessary to be recognised on the Branch's non-financial assets as at 31 December 2021 and 2020.

*(iii) Provisions (Notes 17 and 18)*

Judgment and professional expert advice are involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflow.

*(iv) Realisation of deferred tax assets (Note 13)*

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilised due to insufficient taxable profit against which the deferred tax losses will be applied.

The management of the Branch believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilised.

### 3. Significant accounting policies

#### 3.1 Amendments to existing standards that became effective as at 1 January 2021

The Bank has adopted the following amendments to existing standards effective 1 January 2021:

- Amendments to IFRS 9, 'Financial Instruments', IFRS 7 'Financial Instruments: Disclosures', and IFRS 16 'Leases'

These amendments that were issued in August 2020 address issues that arise during the reform of an interest rate benchmark rate (IBOR), including the replacement of one benchmark rate with an alternative one.

The key reliefs provided by the amendments are as follows:

- Changes to contractual cash flows. When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the statement of profit or loss and other comprehensive income.
- Hedge accounting. The hedge accounting reliefs will allow most IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

#### Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as USD, GBP and EUR LIBOR and other inter-bank offered rates has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes.

As part of the reforms noted above, the international regulators have decided to no longer compel panel banks to participate in the LIBOR submission process after the end of 2021 - although it acknowledges that COVID-19 might impact on these plans - and to cease oversight of these benchmark interest rates. Regulatory authorities and private sector working groups, including the International Swaps and Derivatives Association (ISDA) and the Working Group on Sterling and Risk-Free Reference Rates, continue to discuss alternative benchmark rates for LIBOR.

It is currently expected that SOFR (Secured Overnight Financing Rate), SONIA (Sterling Overnight Index Average) and €STR (Euro Short Term-Rate) (collectively, 'replacement rates') will replace USD LIBOR, GBP LIBOR and EUR LIBOR, respectively. There remain key differences between LIBOR and the replacement rates. LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. The replacement rates are currently 'backward-looking' rates, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, LIBOR includes a credit spread over the risk-free rate, which the replacement rates currently do not. To transition existing contracts and agreements that reference LIBOR to their respective replacement rates, adjustments for term differences and credit differences might need to be applied to the replacement rates, to enable the two benchmark rates to be economically equivalent on transition.

As at 31 December 2021, the Branch has approved SOFR as the replacement rates for LIBOR. The Branch's exposures that will be maturing after the cessation of the related benchmark rate will be transitioned to the replacement rates. The adoption of the above changes in interest rate benchmark did not have a material impact on the financial statements of the Branch.

There are no other new standards, interpretations and amendments to existing standards effective 1 January 2021 that are considered to be relevant or have a material impact on the Branch's financial statements.

### **3.2 Amendments to existing standards issued but not yet effective**

The following amendments to existing standards are not mandatory for 31 December 2021 reporting period and have not been early adopted by the Branch:

- Amendments to IAS 16, 'Property, Plant and Equipment'

The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendment to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'

The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contract. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

- Amendments to IAS 1, 'Presentation of Financial Statements'

The amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

In addition, IAS 1 requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendment to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'

The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- Amendments to IAS 12, 'Income Taxes'

The amendments require entities to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented.



In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (a) right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Branch. There are also no new standards effective after 31 December 2021 that are expected to be relevant or would have a material impact on the financial statements of the Branch.

### **3.3 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 statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

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

- |                                     |               |
|-------------------------------------|---------------|
| • Renovation                        | 6 to 7 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 statement of profit or loss and other comprehensive income 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 revaluation reserve to the extent of the revaluation surplus or the statement of profit or loss and other comprehensive income to the extent of the excess of revaluation surplus, 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 statement of profit or loss and other comprehensive income on the date of disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained earnings and is not reclassified to the statement of profit or loss and other comprehensive income.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss and other comprehensive income in the year the item is derecognised.

### **3.4 Intangible assets**

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with finite useful lives are amortised on a straight-line basis on the following basis:

- |                     |              |
|---------------------|--------------|
| • Computer software | 3 to 5 years |
|---------------------|--------------|

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in statement of profit or loss and other comprehensive income as incurred.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### **3.5 Foreign currency transactions**

The functional and presentation currency of the Branch is Brunei Dollars (BND). 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 statement of profit or loss and other comprehensive income.

### **3.6 Fair values of financial assets and liabilities**

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in IFRS 13, 'Fair value measurement'. The categorisation is determined with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes equity securities listed on exchange, debt instruments issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the over-the-counter (OTC) derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors, issued structured deposits and other debt instruments.
- Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment, debt instruments and certain OTC derivative contracts with significant unobservable components.

### **3.7 Financial instruments**

#### ***Recognition and initial measurement***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

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 the risks and rewards of ownership.

#### ***Classification and subsequent measurement***

##### **Financial assets**

The Branch classifies its financial assets into one of the following measurement categories at initial recognition as subsequently measured at: fair value through profit or loss (FVPL), amortised cost and fair value through other comprehensive income (FVOCI). The classification depends on the Branch's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments, or the election of fair value option. All financial assets are recognised initially at fair value. Except for financial assets carried at FVPL, all transaction costs of financial assets are included in their initial carrying amounts.

##### **(i) Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets designated at FVPL at inception, or financial assets mandatorily required to be measured at FVPL, including those held for trading.

A financial asset which has been acquired or incurred principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking is classified as held for trading. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

A financial asset, other than those held for trading or mandatorily measured at fair value, will be designated as a financial asset at FVPL, if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases, and is so designated by the Management.

The Branch has no financial assets measured at FVPL as at 31 December 2021 and 2020.

**(ii) Financial assets at amortised cost**

Financial assets are classified and subsequently measured at amortised cost if both of the following conditions are met: (i) the financial assets are held within a business model with the objective to hold financial assets in order to collect contractual cash flows ('hold-to-collect' business model), and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates. They are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method less allowance for impairment losses. Interest income which includes the amortisation of premium or discount is calculated using the effective interest rate method and is recognised in the statement of profit or loss and other comprehensive income. Gains or losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

**(iii) Financial assets at fair value through other comprehensive income**

Debt instruments are classified as subsequently measured at FVOCI if both of the following conditions are met: (i) the financial assets are held within a business model with the objective of both holding to collect contractual cash flows and selling, and (ii) the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

**Financial liabilities**

**(i) Financial liabilities designated at fair value through profit or loss**

This class of instruments includes certain deposits received from customers that are embedded with derivatives. The plain vanilla contracts are valued in the similar way described in previous debt securities section. The fair value of structured deposits is derived from the fair value of the underlying deposit by using discounted cash flow analysis taking the Branch's own credit risk into account, and the fair value of the embedded derivatives.

The Branch has no financial liabilities measured at FVPL as at 31 December 2021 and 2020.

**(ii) Financial liabilities held at amortised cost**

Deposits from customers and institutions, group balances payable and other liabilities, other than those designated at FVPL are carried at amortised cost. Any difference (if any) between proceeds net of transaction costs and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period using the effective interest rate method.

**Recognition, measurement and derecognition of Financial instruments**

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 classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognised in statement of profit or loss and other comprehensive income. Directly attributable transaction costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are derecognised from the statement of financial position 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 statement of financial position, and the difference between the carrying amount of a liability and the consideration paid is included in net trading gain/loss.

The Branch has no financial liabilities measured at FVPL as at 31 December 2021 and 2020.

**Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch currently has a legally enforceable right to set-off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. As at 31 December 2021 and 2020, there are no financial assets and liabilities that have been offset.

### 3.8 Impairment of financial assets

The Branch recognises a loss allowance for expected credit losses (ECLs) on the following items:

- Financial assets measured at amortised cost;
- Debt securities measured at FVOCI; and
- Loan commitments and financial guarantees issued, which are not measured at FVPL.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls. The expected cash shortfalls are discounted where the effect of discounting is material. The maximum period considered when estimating ECLs is the maximum contractual period over which the Branch is exposed to credit risk.

In measuring ECLs, the Branch takes into account reasonable and supportable information that is available. This includes information about past events, current conditions and forecasts of future economic conditions. ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; or
- Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Branch will account for ECLs within the next 12 months as Stage 1 when those financial instruments are initially recognised; and to recognise lifetime ECLs as Stage 2 when there has been significant increases in credit risk since initial recognition. Lifetime ECLs will be recognised for credit-impaired financial instruments as Stage 3 if one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred and interest will then be accrued net of the impairment amount of the respective Stage 3 financial assets.

In assessing whether the credit risk of a financial instrument (including a loan commitment and financial guarantee) has increased significantly since initial recognition, the Branch compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Branch considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as realising securities (if any is held); or (ii) the financial asset is 90 days past due. The Branch considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Branch.

For loan commitments and financial guarantees, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Branch becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment or a financial guarantee, the Branch considers changes in the risk of default occurring on the loan and advances to which the loan commitment/financial guarantee relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised in the statement of profit or loss.

The Branch recognises an impairment loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI, for which the loss allowance is recorded in the fair value reserve.

When a financial asset is uncollectible, it is written-off against the related allowance for impairment losses. Such assets are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. The assets written-off are still subject to enforcement activity. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the statement of profit or loss and other comprehensive income.

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 reversal is recognised in the statement of profit or loss and other comprehensive income.



### **3.9 Current and deferred income taxes**

Tax expenses for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, 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 substantively 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 substantively 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 impairment allowance, depreciation of property and equipment and intangible assets and tax losses carried forward. 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 statement of profit or loss and other comprehensive income.

### **3.10 Interest income and expense; and fee and commission income and expenses**

Interest income and expense are recognised in the statement of profit or loss and other comprehensive income for all financial assets and financial liabilities using the effective interest rate method.

The effective interest rate 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 the 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 impairment loss. Subsequent unwinding of the discount 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.

### **3.11 Provisions and contingencies**

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.

Contingent liabilities or contingent assets are present obligation or possible assets, respectively, that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Branch. Contingent liability can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent asset is not recognised as an asset until it is confirmed that the inflow of economic benefits is probable.

### **3.12 Employee benefits**

Salaries, cash bonuses, allowances, commissions and defined contributions under regulations are recognised in the statement of profit or loss and other comprehensive income 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.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered.

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.

### **3.13 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, balances placed with Brunei Darussalam Central Bank (excluding the minimum cash reserve), short-term bills and notes classified as investment securities and certificates of deposit.

### **3.14 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.

### 3.15 Lease

Lessees account for all leases in a similar way as the finance lease accounting under IAS 17, i.e. the lessees recognise and measure the corresponding 'right-of-use' asset and lease liability at the commencement date (the date when the underlying asset is available for use by lessees) of the lease by discounting the total future lease payment. Subsequently, the lessees recognise interest expense through the unwinding of the lease liability, and the expense on the depreciation of the right-of-use asset, instead of recognising as rental expenses under operating leases before the implementation of IFRS 16.

After the commencement date, the carrying value of lease liability will be increased to reflect the unwinding of discount through interest expense and will be reduced to reflect the lease payments made. The lease liability will also be remeasured if there is any modification to the lease contracts. Right-of-use assets are depreciated by straight-line method from commencement date to the end of lease term. In case there is a purchase option that is expected to be exercised, then the right-of-use asset will be depreciated to the end of the useful life of the underlying asset.

Right-of-use assets are generally measured at the amount of the lease liabilities plus initial direct costs, estimated dismantling or restoring cost and adjusted by prepaid lease payments. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

Lease liabilities are the discounted present value of the future cash flows of the non-cancellable lease payments of the lease contracts, after taking into account payments to be made in optional period if the extension option is reasonably certain to be exercised, using the lessees' incremental borrowing rates at the commencement date of leases as discount rate.

Short-term leases are those leases that have a lease term of 12 months or less which are not capitalised. When the Branch enters into a lease in respect of a low-value asset, the Branch decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

### 3.16 Comparative information

Certain reclassifications have been made in the prior year to conform to the current year's presentation. This did not affect the total assets, liabilities, head office and net profit that were previously reported.

**3.17 Subsequent events**

Post year-end events that provide additional information about the Branch's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

**4. Cash**

This account as at 31 December consists of:

	<b>2021</b> <b>B\$'000</b>	<b>2020</b> <b>B\$'000</b>
Cash on hand	<b>1,552</b>	<b>2,840</b>

**5. Balances with Brunei Darussalam Central Bank (BDCB)**

This account as at 31 December consists of:

	<b>2021</b> <b>B\$'000</b>	<b>2020</b> <b>B\$'000</b>
Balances placed with BDCB	<b>21,961</b>	<b>18,669</b>
Minimum cash reserve	<b>35,748</b>	<b>28,888</b>
	<b>57,709</b>	<b>47,557</b>

The minimum cash reserve is maintained as required by the provisions of Section 4S of the Brunei Darussalam Banking Order 2006. This is not available for use in the Branch's day to day operations. At 31 December 2021 and 2020, the minimum cash reserve requirement is 6% of the deposit liabilities and is not earning interest.

**6. Deposits with banks and other financial institutions**

This account as at 31 December consists of:

	<b>2021</b> <b>B\$'000</b>	<b>2020</b> <b>B\$'000</b>
At amortised cost	<b>611</b>	<b>193</b>

Deposits with banks and other financial institutions are interest earning deposits that are due on demand.

As of 31 December 2021 and 2020, there is no impairment allowance recognised as the deposits with banks and other financial institutions are fully performing.

## 7. Government sukuk

This account as at 31 December consists of:

	2021 B\$'000	2020 B\$'000
Debt instrument at FVOCI:		
<u>Government sukuk held</u>		
Original maturity less than one year	10,876	6,343
Less: Impairment allowance		
- Stage 1 (Note 25)	(1)	(1)
	<u>10,875</u>	<u>6,342</u>

The Branch classifies Government sukuk as financial asset at amortised cost. Government sukuk bears annual interest rates ranging from 0.12% to 0.4375% in 2021 (2020 - 0.0625% to 0.5%).

## 8. Group balances receivable

This account as at 31 December consists of receivable from:

	2021 B\$'000	2020 B\$'000
<u>Name of the company</u>		
Bank of China (Hong Kong) Limited, Hong Kong (Note 28)	<u>139,011</u>	222,396

The group balances receivable are current, unsecured, collectible on demand and bear annual interest rates ranging from 0.1% to 0.3125% in 2021 (2020 - 0.1251% to 0.25%).

## 9. Loans and advances

Loans and advances as at 31 December analysed by type:

	2021 B\$'000	2020 B\$'000
Term loans		
- Property loans	6,152	7,096
- Other term loans	5,650	15,026
Syndicated loans	141,961	81,471
Overdrafts	3,895	2,325
Trade finance	222,504	202,732
<b>Gross loans and advances</b>	<b>380,162</b>	<b>308,650</b>
Less: Impairment allowance		
- Stage 1 (Note 25)	(1,270)	(1,196)
<b>Loans and advances, net</b>	<b>378,892</b>	<b>307,454</b>

The maturity profile of the Branch's loans and advances as at 31 December follows:

	2021 B\$'000	2020 B\$'000
Current	248,508	213,331
Non-current	130,384	94,123
	<b>378,892</b>	<b>307,454</b>

### *Temporary regulatory relief (the 'Moratorium')*

As a result of the COVID-19 situation, BDCB released a notice for a temporary regulatory relief allowing loan customers to apply for temporary deferment or restructuring of their loan payments and accounts. As at 31 December 2021, one of the Branch's borrower with outstanding loans and advances of B\$3.6 million availed of the moratorium (2020 - nil). The Branch considered it as a Stage 1 account and provided an impairment allowance of B\$0.13 million as at 31 December 2021 (2020 - nil). The related loan has a remaining maturity period of six (6) years.

**10. Other assets**

This account as at 31 December consists of:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Other receivables	<b>301</b>	271
Prepayments	<b>282</b>	331
Less: Impairment allowance		
- Stage 1 (Note 25)	<b>(1)</b>	(1)
	<b>582</b>	601



## 11. Property and equipment

The composition and movement of this account follows:

	Right-of-use assets	Renovation	Furniture, fixtures & equipment	Motor vehicles	Total
<u>Cost</u>	<u>B\$'000</u>	<u>B\$'000</u>	<u>B\$'000</u>	<u>B\$'000</u>	<u>B\$'000</u>
As at 1 January 2020	691	1,535	2,030	215	4,471
Additions	-	43	119	92	254
Reclassification to intangible assets	-	-	(1,283)	-	(1,283)
As at 31 December 2020	691	1,578	866	307	3,442
Additions	-	-	80	-	80
Modification of lease	(18)	-	-	-	(18)
As at 31 December 2021	<b>673</b>	<b>1,578</b>	<b>946</b>	<b>307</b>	<b>3,504</b>
<u>Accumulated depreciation and amortisation</u>					
As at 1 January 2020	(112)	(551)	(995)	(91)	(1,749)
Reclassification to intangible assets	-	-	744	-	744
Depreciation charge for the year	(221)	(235)	(124)	(54)	(634)
As at 31 December 2020	(333)	(786)	(375)	(145)	(1,639)
Depreciation charge for the year	(215)	(258)	(132)	(62)	(667)
Modification of lease	18	-	-	-	18
As at 31 December 2021	<b>(530)</b>	<b>(1,044)</b>	<b>(507)</b>	<b>(207)</b>	<b>(2,288)</b>
Net book value as at 31 December 2020	358	792	491	162	1,803
Net book value as at 31 December 2021	<b>143</b>	<b>534</b>	<b>439</b>	<b>100</b>	<b>1,216</b>

The right-of-use assets is related to the lease of bank premises as its principal place of business, operations and staff accommodation.

**12. Intangible assets**

The movement of this account follows:

	<b>Computer software B\$'000</b>
<u>Cost</u>	
As at 1 January 2020	-
Reclassification from property and equipment	1,283
As at 31 December 2020	1,283
As at 31 December 2021	<b>1,283</b>
<u>Accumulated depreciation</u>	
As at 1 January 2020	-
Reclassification from property and equipment	(744)
Depreciation charge for the year	(260)
As at 31 December 2020	(1,004)
Depreciation charge for the year	(223)
As at 31 December 2021	<b>(1,227)</b>
Net book value as at 31 December 2020	279
Net book value as at 31 December 2021	<b>56</b>

**13. Deferred tax assets, net**

The composition and movement of this account follows:

	<b>Impaired allowance B\$'000</b>	<b>Accelerated depreciation for tax B\$'000</b>	<b>Right-of- use asset and liabilities under IFRS 16 B\$'000</b>	<b>Losses available for offsetting against future taxable income B\$'000</b>	<b>Total B\$'000</b>
1 January 2020	132	(259)	-	424	297
Credited (charged) to profit or loss (Note 18)	93	68	13	(424)	(250)
31 December 2020	<b>225</b>	<b>(191)</b>	<b>13</b>	<b>-</b>	<b>47</b>
Credited (charged) to profit or loss (Note 18)	17	71	(3)	-	85
31 December 2021	<b>242</b>	<b>(120)</b>	<b>10</b>	<b>-</b>	<b>132</b>

**14. Deposits from customers**

Analysed by type of deposit as at 31 December is as follows:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Demand deposits	<b>16,827</b>	52,019
Savings deposits	<b>155,042</b>	204,223
Fixed deposits	<b>63,155</b>	32,231
	<b>235,024</b>	288,473

Analysed by type of customers as at 31 December is as follows:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Business enterprises	<b>224,884</b>	279,953
Individuals	<b>10,140</b>	8,520
	<b>235,024</b>	288,473

Deposits from customers bear annual interest rates averaging 0.15% in 2021 and 0.15% - 0.75% in 2020 .

**15. Deposits from banks and other financial institutions**

This account as at 31 December consists of:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Banks and financial institutions	<b>22,957</b>	-

Deposits from banks and other financial institutions are current in nature, unsecured and earn interest at prevailing market rates.

**16. Group balances payable**

This account as at 31 December consists of amount due to:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
<u>Name of the company</u>		
Bank of China (Hong Kong) Limited, Hong Kong	<b>205,791</b>	183,573

The group balances payable are current, unsecured, payable on demand and bear annual interest rates ranging from 0.13% to 1.38% in 2021 (2020 - 1.38% to 1.44%).

**17. Other liabilities**

This account as at 31 December consists of:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Margin deposits and other payables to customers	<b>20,775</b>	15,811
Creditors and accruals	<b>1,390</b>	1,422
Lease liabilities	<b>197</b>	427
Impairment allowance on loan commitments and financial guarantees:		
- Stage 1 (Note 25)	<b>40</b>	16
	<b>22,402</b>	17,676

The carrying amount of lease liabilities and the movements during the year are as follows:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
As at 1 January	<b>427</b>	623
Accretion of interest	<b>6</b>	11
Payments of principal portion	<b>(230)</b>	(196)
Interest paid	<b>(6)</b>	(11)
As at 31 December	<b>197</b>	427

The maturity profile of the Branch's lease liabilities as at 31 December follows:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Current	<b>131</b>	238
Non-current	<b>66</b>	189
	<b>197</b>	427

In 2021, the total cash outflow relating to leases is **B\$ 520 thousands** (2020: B\$ 500 thousand).

## 18. Taxation

The tax expense recognised in the statement of profit or loss and other comprehensive income for the years ended 31 December comprises of the following:

	2021 B\$'000	2020 B\$'000
Tax expense (benefit)		
- Current tax	965	22
- Deferred tax (Note 13)	(85)	250
	<u>880</u>	<u>272</u>

The movement in the provision for taxation as reported in the statement of financial position follows:

	2021 B\$'000	2020 B\$'000
As at 1 January	22	-
Payment	(38)	-
Current year tax expense	965	22
As at 31 December	<u>949</u>	<u>22</u>

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:

	2021 B\$'000	2020 B\$'000
<u>Reconciliation of effective tax rate:</u>		
Profit before income tax	4,625	1,929
Tax calculated at a tax rate of 18.5%	856	357
Tax effect of non-deductible expenses (net of non-taxable revenue)	10	9
Tax effect of further deduction	(20)	(17)
Threshold exemption	(28)	(28)
Tax incentives and others	17	(18)
Change in accrual for prior year	8	-
Origination and reversal of temporary differences	37	(31)
Total	<u>880</u>	<u>272</u>

## 19. 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 commitments and contingencies may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

	2021 B\$'000	2020 B\$'000
<u>Contingencies:</u>		
Letters of credit	26,565	30,372
Guarantees and bonds	44	17
	<b>26,609</b>	<b>30,389</b>
<u>Commitments:</u>		
Undrawn credit lines	15,203	61,515
<b>Total contingencies and commitments</b>	<b>41,812</b>	<b>91,904</b>

## 20. Net interest income and interest expense

This account for the years ended 31 December consists of:

	2021 B\$'000	2020 B\$'000
<u>Interest income</u>		
Loans and advances	5,965	6,395
Group balances receivable	1,275	2,298
Government sukuk	25	169
<b>Total interest income</b>	<b>7,265</b>	<b>8,862</b>
<u>Interest expense</u>		
Deposits from customers	(453)	(1,106)
Group balances payable	(297)	(1,245)
Deposits from banks and other financial institutions	(21)	-
Lease liabilities	(6)	(11)
<b>Total interest expense</b>	<b>(777)</b>	<b>(2,362)</b>
<b>Net interest income</b>	<b>6,488</b>	<b>6,500</b>

**21. Net fee and commission income**

This account for the years ended 31 December consists of:

	2021 B\$'000	2020 B\$'000
Loan commissions	2,897	2,860
Payment service fees	1,748	270
Currency exchange fees	193	198
Account service fees	57	7
Others	70	67
Fee and commission income	4,965	3,402
Fee and commission expense	(464)	(284)
<b>Net fee and commission income</b>	<b>4,501</b>	<b>3,118</b>

**22. Other operating income (loss)**

This account for the years ended 31 December consists of:

	2021 B\$'000	2020 B\$'000
Gain (loss) on foreign currency exchange	1,072	(195)

**23. Staff costs**

This account for the years ended 31 December consists of:

	2021 B\$'000	2020 B\$'000
Wages and salaries	3,352	2,889
Allowance and bonuses	1,424	1,763
Contributions to defined contribution plan	106	93
	<b>4,882</b>	<b>4,745</b>

**24. Other expenses**

This account for the years ended 31 December consists of:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Depreciation of property and equipment and intangible assets	<b>675</b>	673
Electronic data processing	<b>465</b>	464
Expenses relating to short-term leases	<b>277</b>	290
Administration and general expenses	<b>270</b>	284
Professional fees	<b>231</b>	122
Depreciation of right-of-use assets	<b>215</b>	221
Advertising and publicity	<b>93</b>	89
Premises and equipment	<b>68</b>	67
Others	<b>162</b>	195
	<b>2,456</b>	2,405

**25. Net impairment charges**

This account for the years ended 31 December consists of:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Stage 1	<b>(98)</b>	(344)
Stage 2	-	-
Stage 3	-	-
Total	<b>(98)</b>	(344)

Movements in the impairment allowance on loans and advances to customers and other financial assets for the years ended 31 December follow:

	<b>2021</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>
As at 1 January	<b>1,214</b>	-	-	<b>1,214</b>
Provision for impairment loss	<b>98</b>	-	-	<b>98</b>
At 31 December	<b>1,312</b>	-	-	<b>1,312</b>



	2020			
	Stage 1 B\$'000	Stage 2 B\$'000	Stage 3 B\$'000	Total B\$'000
As at 1 January	870	-	-	870
Provision for impairment loss	344	-	-	344
As at 31 December	1,214	-	-	1,214

The composition of impairment allowance as at 31 December follows:

	2021				
	Balance as at	Net impairment charges			Balance as at
	1 January	Stage 1	Stage 2	Stage 3	31 December
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
Loans and advances	1,196	74	-	-	1,270
Government sukuk	1	-	-	-	1
Other assets	1	-	-	-	1
Financial guarantees	7	23	-	-	30
Other commitments	9	1	-	-	10
	1,214	98	-	-	1,312

	2020				
	Balance as at 1 January B\$'000	Net impairment charges (recoveries)			Balance as at 31 December B\$'000
		Stage 1 B\$'000	Stage 2 B\$'000	Stage 3 B\$'000	
Loans and advances	844	352	-	-	1,196
Government sukuk	4	(3)	-	-	1
Other assets	1	-	-	-	1
Financial guarantees	1	6	-	-	7
Other commitments	20	(11)	-	-	9
	870	344	-	-	1,214

## 26. Statutory reserve

The statutory reserve is maintained in accordance with Section 24 of the Banking Order, 2006. The Branch shall transfer a minimum of 50% of the profit for the financial year to the statutory reserve. In 2021, the Branch transferred B\$1,873 thousands of its net profit to statutory reserves (2020 - B\$829 thousands). The statutory reserve is not distributable as repatriation to the Head office.

## 27. Accounting classification and fair values

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

As at 31 December 2021

	Carrying Amount			Total
	Amortised cost	Fair value through other comprehensive income	Financial liabilities at amortised cost	
	B\$'000	B\$'000	B\$'000	B\$'000
<b>Assets</b>				
Cash	1,552	-	-	1,552
Balances with Brunei Darussalam				
Central Bank	57,709	-	-	57,709
Deposits with banks and other financial institutions	611	-	-	611
Government sukuk	-	10,875	-	10,875
Group balances receivables	139,011	-	-	139,011
Loans and advances	378,892	-	-	378,892
Other assets (excluding prepayments), net	300	-	-	300
	<b>578,075</b>	<b>10,875</b>	<b>-</b>	<b>588,950</b>
<b>Liabilities</b>				
Deposits from customers	-	-	235,024	235,024
Deposits from banks and other financial institutions	-	-	22,957	22,957
Group balances payable	-	-	205,791	205,791
Other liabilities	-	-	22,402	22,402
	<b>-</b>	<b>-</b>	<b>486,174</b>	<b>486,174</b>

As at 31 December 2020

	Carrying Amount			
	Amortised cost	Fair value through other comprehensive income	Financial liabilities at amortised cost	Total
	B\$'000	B\$'000	B\$'000	B\$'000
<b>Assets</b>				
Cash	2,840	-	-	2,840
Balances with Brunei Darussalam				
Central Bank	47,557	-	-	47,557
Deposits with banks and other financial institutions	193	-	-	193
Government sukuk	-	6,342	-	6,342
Group balances receivables	222,396	-	-	222,396
Loans and advances	307,454	-	-	307,454
Other assets (excluding prepayments)	271	-	-	271
	<b>580,711</b>	<b>6,342</b>	<b>-</b>	<b>587,053</b>
<b>Liabilities</b>				
Deposits from customers	-	-	288,473	288,473
Group balances payable	-	-	183,573	183,573
Other liabilities	-	-	17,676	17,676
	<b>-</b>	<b>-</b>	<b>489,722</b>	<b>489,722</b>

**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.

#### **Government sukuk**

The carrying value of the Government sukuk approximates its fair value due to the short period to maturity.

#### **Deposits from customers**

Deposits from customers are calculated using discounted cash flow 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 from customers approximate fair values.

#### **Other financial assets and liabilities**

As at 31 December 2021 and 2020, the carrying amounts of the other financial assets and liabilities (including cash, balances with Brunei Darussalam Central Bank, group balances receivable, other financial 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.

## 28. 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.

### Key management personnel (KMP) compensation

	2021 B\$'000	2020 B\$'000
Short term employee benefits	1,322	1,064
Post-employment benefits	-	-
	<b>1,322</b>	<b>1,064</b>

		2021	
	KMP	Close	Other related
	B\$'000	relatives	entities
		B\$'000	B\$'000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>			
<u>Income</u>			
Interest income	-	-	-
Other income	-	-	-
Total	-	-	-
<u>Expense</u>			
Interest expense	-	-	-
Other expenses	-	-	-
Total	-	-	-
<b>Statement of Financial Position</b>			
<u>Assets</u>			
Loans and advances	-	-	-
Credit cards	-	-	-
Other assets	-	-	-
Total	-	-	-
<u>Liabilities</u>			
Deposits	198	-	-
Total	198	-	-
<u>Off balance sheet items</u>			
Other commitments and contingencies	-	-	-
Total	-	-	-

	2020		
	KMP	Close relatives	Other related entities
	B\$'000	B\$'000	B\$'000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>			
<u>Income</u>			
Interest income	-	-	-
Other income	-	-	-
Total	-	-	-
<u>Expense</u>			
Interest expense	-	-	-
Other expenses	-	-	-
Total	-	-	-
<b>Statement of Financial Position</b>			
<u>Assets</u>			
Loans and advances	-	-	-
Credit cards	-	-	-
Other assets	-	-	-
Total	-	-	-
<u>Liabilities</u>			
Deposits	734	-	-
Total	734	-	-
<u>Off balance sheet items</u>			
Other commitments and contingencies	-	-	-
Total	-	-	-

	2021 B\$'000	2020 B\$'000
<b>Statement of Financial Position</b>		
Group balances receivable	139,011	222,396
Other assets	204	209
Total assets	139,215	222,605
Group balances payable	(205,791)	(183,573)
Other liabilities	(718)	(111)
Total liabilities	(206,509)	(183,684)
Other commitments and contingencies	-	-
Total off-balance sheet items	-	-
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Interest income	1,275	2,298
Total income	1,275	2,298
Interest expense	(297)	(1,245)
Fees and commission expense	(412)	(240)
Other expenses	(83)	(111)
Total expenses	(792)	(1,596)

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. As at 31 December 2021 and 2020, the balances are unsecured, interest bearing, and collectible on demand. Any collections that occurred in 2021 and 2020 are 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. As at 31 December 2021 and 2020, the balances are unsecured, interest bearing, and repayable on demand. Any settlements that occurred in 2021 and 2020 are in cash.



There have been no guarantees provided or received for any of the outstanding related party receivables or payables. For the years ended 31 December 2021 and 2020, the Branch has not recorded any impairment of receivables 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.

## **29. 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, Brunei Darussalam Central Bank (BDCB), to ensure that the relevant regulatory limits as set out in the Brunei Banking Order are complied with. Capital Funds, as defined under by BDCB, 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 complied with the minimum capital adequacy ratio for the Bank to meet as required under the Banking Order, 2006 and the methodology for calculating these ratios under the Basel II, Pillar I Framework.

The statutory reserve is maintained in accordance with Section 24 of the Banking Order, 2006. The Branch shall transfer a minimum of 50% of the profit for the financial year to the statutory reserve. The statutory reserve is not distributable as repatriation to the Head Office.

## 30. Financial risk management

### Overview of risk management

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
- Foreign exchange risk
- Interest rate risk
- Liquidity risk
- Operational 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.

#### (i) 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.

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, product line and risk management units. Significant trends are reported to the Branch's Senior Management and Head Office.

To strengthen the credit risk management framework, the Branch follows the guideline which sets out the operation procedures and requirements with regard to the use of valid internal rating model and relevant approach in credit approval, credit monitoring and reporting of credit risk information. The internal master rating scale can be mapped to Standard & Poor's external credit ratings.

The credit risk from Cash, Balances with Brunei Darussalam Central Bank, 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 shows the maximum exposure to credit risk for the components of the statement of financial position.

<b>Maximum exposure for the year ended 31 December</b>	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
<b>Credit exposure for on-statement of financial position</b>		
<u>Financial assets</u>		
Cash	1,552	2,840
Balances with Brunei Darussalam Central Bank	57,709	47,557
Deposits with banks and other financial institutions	611	193
Government Sukuk	10,875	6,342
Group balances receivable	139,011	222,396
Loans and advances	380,162	308,650
Other assets	301	271
<b>Credit exposure for off-statement of financial position</b>		
<u>Financial assets</u>		
Letters of credit	26,565	30,372
Guarantees, bonds	44	17
Undrawn credit lines	15,203	61,515
<b>Total maximum credit exposures</b>	<b>632,033</b>	<b>680,153</b>

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. The main type of collateral taken by the Branch is residential and commercial properties, land and cash deposits. Policies and processes are in place to monitor collateral concentration.

- **Past due and impaired credit facilities**

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.

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.

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 allowance were made after taking into account the value of collateral in respect of such advances.

Classified or impaired advances to customers represent advances which are either classified as 'substandard', 'doubtful' or 'loss' under the Branch's classification of loan quality, or classified as stage 3/individually assessed to be impaired.

The Branch's adopts the Head Office's internal loans grading criteria which divide credit assets into five categories.

‘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.

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

<b>31 December 2021</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard or below</b>	<b>Total</b>
	<b>B\$’000</b>	<b>B\$’000</b>	<b>B\$’000</b>	<b>B\$’000</b>
<b><u>Loans &amp; advances</u></b>				
Corporate				
- Commercial loans - Stage 1	<b>380,162</b>	-	-	<b>380,162</b>
Less: Impairment allowance	<b>(1,270)</b>	-	-	<b>(1,270)</b>
	<b>378,892</b>	-	-	<b>378,892</b>
<b>31 December 2020</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard or below</b>	<b>Total</b>
	<b>B\$’000</b>	<b>B\$’000</b>	<b>B\$’000</b>	<b>B\$’000</b>
<b><u>Loans &amp; advances</u></b>				
Corporate				
- Commercial loans - Stage 1	308,650	-	-	308,650
Less: Impairment allowance	(1,196)	-	-	(1,196)
	307,454	-	-	307,454

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 2021		
	Unrated B\$'000	Rated B\$'000	Total B\$'000
Cash	1,552	-	1,552
Balances with Brunei Darussalam Central Bank	57,709	-	57,709
Deposits with banks and other financial institutions	-	611	611
Government sukuk	10,875	-	10,875
Group balances receivable	-	139,011	139,011
Other assets	300	-	300
	<b>70,436</b>	<b>139,622</b>	<b>210,058</b>

	31 December 2020		
	Unrated B\$'000	Rated B\$'000	Total B\$'000
Cash	2,840	-	2,840
Balances with Brunei Darussalam Central Bank	47,557	-	47,557
Deposits with banks and other financial institutions	-	193	193
Government sukuk	6,342	-	6,342
Group balances receivable	-	222,396	222,396
Other assets	270	-	270
	<b>57,009</b>	<b>222,589</b>	<b>279,598</b>

- **Credit risk mitigation**

#### Collateral

The Branch's credit risk mitigation policy determines the key considerations for eligibility, enforceability and effectiveness of credit risk mitigation arrangements. The policy articulates the standards to monitor and manage the collateral's security as the secondary repayment source and recovery of obligation loss.

Collateral types that are eligible for risk mitigation include: cash, bank guarantees and standby letters of credit, residential property, commercial property and industrial property, land, fixed assets such as aircraft and vessel.

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:

<b>Collateral</b>	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
Gross bills receivable, loans and advances	<b>380,162</b>	308,650
Other contingencies and commitments	<b>41,812</b>	91,904
Less: financial effect of collateral held		
- Cash	<b>(2,868)</b>	(1,591)
- Properties	<b>(11,065)</b>	(11,465)
- Guarantees	<b>(44)</b>	(17)
Net exposure from loans and advances and off statement of financial positions items	<b>407,997</b>	387,481

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



- **Concentration risk**

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:

	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
<u>Loans &amp; advances:</u>		
Manufacturing	<b>236,358</b>	165,938
Traders	<b>868</b>	1,120
Services	<b>4,713</b>	7,283
Financial	<b>81,690</b>	105,019
Telecommunication and information technology	<b>13,507</b>	-
Residential & commercial property	<b>43,026</b>	29,290
	<b>380,162</b>	308,650
Less: Impairment allowance	<b>(1,270)</b>	(1,196)
	<b>378,892</b>	307,454

**(ii) 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.

Bank of China (Hong Kong) Limited's market risk management is intended to ensure proper oversight of market risk, assure market risk taking activities are consistent with its risk appetite while optimising risk and return. In accordance with the Bank of China (Hong Kong) Limited's corporate governance principles in respect of risk management, the Board and Risk Management Committee, the Branch's 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 day-to-day 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.

With reference to Bank of China Hong Kong Limited's market risk management framework, the Branch manages its market risk according to prescribed business requirements and risk tolerance level.

**(iii) 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 following is a summary of the Branch's net exposure to major foreign currencies arising from trading and structural positions, followed by a sensitivity analysis (assuming all other risk variables remain constant):

	<b>Assets/ (Liabilities)</b>	<b>Assets/ (Liabilities)</b>
	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
<b>Net trading position:</b>		
Chinese Yuan	20	(1)
Euro	7	14
Hong Kong Dollar	260	204
United States Dollar	1,173	(346)
	<b>1,460</b>	<b>(129)</b>
	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
<b>Net structural position:</b>		
United States Dollar*	40,037	40,037

\*This relates to the Head Office account

A 10% strengthening of BND against the foreign currencies as at year end, would have decreased (2020 - increased) the profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	<b>Impact on profit or loss</b>	
	<b>2021</b>	<b>2020</b>
	<b>B\$'000</b>	<b>B\$'000</b>
<b>Net trading position:</b>		
Chinese Yuan	(2.0)	0.1
Euro	(0.7)	(1.4)
Hong Kong Dollar	(26.0)	(20.4)
United States Dollar	(117.3)	34.6
	<b>(146.0)</b>	<b>12.9</b>

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.

**(iv) Interest rate risk in the banking book (IRRBB)**

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 Bank of China (Hong Kong) Limited'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, assessment of target financial position, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to the senior management and RC, etc. Finance and Accounting Department assists to perform day-to-day interest rate risk management.

The Bank of China (Hong Kong) Limited 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 Bank of China (Hong Kong) Limited 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.

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

#### (v) Liquidity risk

Liquidity risk is the risk that the Branch may not be able to obtain sufficient and timely funding at a reasonable cost to meet their obligation as they fall due. The Branch's maintains a sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances and stressed scenarios.

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

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 provide 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 was in compliance with Section 45(1) of the Banking Order, 2006 to maintain minimum cash balance with the BDCB during the year ended 31 December 2021.

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.

<b>As at 31 December 2021</b>	<b>Carrying amount</b>	<b>Gross nominal outflow</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-3 years</b>	<b>More than 3 years</b>
	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>
<u>Liabilities</u>							
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	-	-
	<b>487,123</b>	<b>487,310</b>	<b>373,281</b>	<b>12,318</b>	<b>101,489</b>	<b>212</b>	<b>10</b>
 <b>As at 31 December 2020</b>							
	<b>Carrying amount</b>	<b>Gross nominal outflow</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-3 years</b>	<b>More than 3 years</b>
	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>
<u>Liabilities</u>							
Deposits from customers	288,473	288,492	258,274	30,135	83	-	-
Group balances payable	183,573	183,596	183,596	-	-	-	-
Other liabilities	17,249	17,249	13,117	139	3,859	126	8
Lease liabilities	427	404	24	34	155	190	1
Provision for taxation	22	22	-	22	-	-	-
	<b>489,744</b>	<b>489,763</b>	<b>455,011</b>	<b>30,330</b>	<b>4,097</b>	<b>316</b>	<b>9</b>

**(vi) 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, organisational 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; and
- (iii) establishing operational risk management processes, methodologies and modelling 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 ("RCD"), together with certain specialist functions units in the relation to operational risk management within the Branch, including the Administration Department, Financial 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 in the first line of defence, and providing them with guidance. The RCD, 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 framework, designing the operational risk management tools and reporting mechanism, and assessing and reporting the overall operational risk status to the Senior 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 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 to the effectiveness and adequacy of the operational risk management framework and is required to conduct periodic audit of the operational risk management activities within the 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.

BOCHK Group 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.

BOCHK Group 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.

### 31. 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) follow:

<b>As at 31 December 2021</b>	<b>Current B\$'000</b>	<b>Non-current B\$'000</b>	<b>Total B\$'000</b>
<b><u>Assets</u></b>			
Cash	1,552	-	1,552
Balances with Brunei Darussalam Central Bank	57,709	-	57,709
Deposits with banks and other financial institutions	611	-	611
Government sukuk	10,875	-	10,875
Group balances receivable	139,011	-	139,011
Loans and advances	248,508	130,384	378,892
Other assets	475	107	582
Property and equipment	161	1,055	1,216
Intangible assets	56	-	56
Deferred tax assets	-	132	132
	<b>458,958</b>	<b>131,678</b>	<b>590,636</b>



Liabilities and Head Office Account

Deposits from customers	235,024	-	235,024
Deposits from banks and other financial institutions	22,957	-	22,957
Group balances payable	205,791	-	205,791
Other liabilities	22,180	222	22,402
Provision for taxation	949	-	949
Head Office Account	-	103,513	103,513
	<b>486,901</b>	<b>103,735</b>	<b>590,636</b>

**As at 31 December 2020**

	<b>Current B\$'000</b>	<b>Non-current B\$'000</b>	<b>Total B\$'000</b>
<u>Assets</u>			
Cash	2,840	-	2,840
Balances with Brunei Darussalam Central Bank	47,557	-	47,557
Deposits with banks and other financial institutions	193	-	193
Government sukuk	6,342	-	6,342
Group balances receivable	222,396	-	222,396
Loans and advances	213,331	94,123	307,454
Other assets	503	98	601
Property and equipment	-	1,803	1,803
Intangible Assets	-	279	279
Deferred tax assets	-	47	47
	<b>493,162</b>	<b>96,350</b>	<b>589,512</b>

Liabilities and Head Office Account

Deposits from customers	288,473	-	288,473
Group balances payable	183,573	-	183,573
Other liabilities	17,353	323	17,676
Provision for taxation	22	-	22
Head Office Account	-	99,768	99,768
	<b>489,421</b>	<b>100,091</b>	<b>589,512</b>

### **AMBD Notice No. BU/N-1/2017/36 – Disclosure of Corporate Governance Arrangements**

A copy of the Corporate Governance Policy of BOC Hong Kong (Holdings) Limited (“BOCHK (Holdings)”), the holding company of Bank of China (Hong Kong) Limited (“BOCHK”), can be found at the following website link:

<https://www.bochk.com/en/aboutus/corpgovernance/policy.html>

A copy of BOCHK parent bank’s (Bank of China Limited) corporate governance disclosures can be found in the Annual Report of Bank of China Limited at the following website link:

<http://www.boc.cn/en/investor/ir3/>

### **Corporate Governance Framework at BOCHK Brunei Branch**

In line with BOCHK, BOCHK Brunei Branch (“the Branch”) is committed to maintaining and upholding high standards of corporate governance in order to safeguard the interests of shareholders, customers and employees. The Board of Directors of BOCHK (“the Board”) is at the core of corporate governance framework and there is a clear division of responsibilities between the Board and the Management.

Being a Southeast Asian branch of BOCHK, the Branch does not have a locally established Board of Directors and the Board oversees the Group which includes the Branch. The Board is responsible for providing high-level guidance and effective oversight of the Management. The Board authorizes the Management (Chief Executive (“CE”) or the Management Committee (“MC”) chaired by CE and other decision making committees designated by CE or MC) to implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group including overseas branches and reports to the Board. For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances when the Management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

### **Roles of the Chairman and the Chief Executive**

To avoid concentration of power in any single individual, the positions of the Chairman and CE of BOCHK are held by two different individuals. Their roles are distinct, clearly established and stipulated in the Board’s Mandate. In short, the Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. In addition, as the Chairman of the Board, he is also responsible for ensuring that all directors are properly briefed on all issues currently on hand, and that all directors receive adequate, accurate and reliable information in a timely manner.

The CE is responsible for providing leadership for the whole management and implementing important policies and development strategies as adopted by the Board. Led by the CE, the MC fulfills responsibilities including management of the Group’s routine operation, implementation of business development strategies and realisation of the Group’s long-term targets and strategies.

Under the South East Asia entities Governance structure, the Branch General Manager (“GM”) has direct reporting lines to BOCHK CE and BOCHK Senior Management (Deputy CE and Chief Officers). Local Risk Management and Compliance teams have dual reporting lines to both the Branch’s GM/CRO and the corresponding BOCHK Regional Management Team in Hong Kong. The Corporate Governance policy of the Branch is implemented and monitored via this governance structure but may adopt differentiation in Corporate Governance practice in accordance with local laws/regulatory requirements.

## Corporate Governance Policy

BOCHK Group including the Branch recognises the importance of high standards of corporate governance and maintains an effective corporate governance framework which delivers long-term success of the Group. The Group is also strongly committed to embracing and enhancing sound corporate governance principles and practices. The established well-structured corporate governance framework of BOCHK adopted by the Branch directs and regulates the business ethical conduct of the Branch, thereby protects and upholds the interests of shareholders and stakeholders as a whole in a sustainable manner.

However, the following is a summary of deviations noted from local regulatory guidelines on Corporate Governance (“Brunei Guidelines”) with rationale and/or alternative arrangements put in place provided.

1. While the Brunei Guidelines require that the number of executive directors on the Board be kept to the very minimum and there should not be more than one executive director sitting on the Board, BOCHK is adhering to the corporate governance regulations and practice in Hong Kong which allows BOCHK to appoint such number of executive director(s) as it deems appropriate, which is currently one. The Board, which is currently composed of a majority of independent non-executive directors, maintains an appropriate level of checks and balances to ensure independence and objectivity of the decisions of the Board, as well as the impartial oversight of the Management.
2. The Brunei Guidelines require that every Bank should appoint a lead independent director and the independent directors should, under the leadership of this lead independent director, meet periodically without the presence of the other directors and the lead independent director should provide feedback to the Chairman after such meetings. Based on the corporate governance regulations and practice in Hong Kong, although BOCHK is not required to appoint such a lead independent director, the Chairman shall hold meetings with the independent non-executive directors at least annually without the presence of the other directors so as to facilitate open discussion.
3. While the Brunei Guidelines require that a director should not have more than 3 Board representations, BOCHK is adhering to Hong Kong’s regulations that the Board would disclose why it believes a proposed independent non-executive director would still be able to devote sufficient time to the Board if the individual will be holding his/her seventh (or more) listed company directorship. Currently there is no director who holds more than 3 listed company directorships (excluding BOCHK (Holdings)). Moreover, all directors have disclosed to BOCHK their significant commitments and have undertaken and confirmed that they are able to devote sufficient time to the affairs of BOCHK.
4. While the Brunei Guidelines require that a simple majority of directors should constitute a quorum for a meeting of the Board, BOCHK’s Articles of Association state that the quorum necessary for the transaction of the business of the directors may be fixed by the directors and unless so fixed shall be two. According to the Mandate of the Board of Directors approved by the Board, the quorum of a Board meeting is three directors. In accordance with the guideline issued by the Hong Kong Monetary Authority, independent non-executive directors should, in principle, be prepared to attend all meetings of the Board and should only miss meetings in exceptional circumstances with reasons being provided and documented. In case the independent non-executive directors are not able to attend the meeting via any means, they should submit written views on items to be discussed ahead of the Board meeting. The high attendance record and active participation has been consistently maintained by the directors of BOCHK and disclosed in BOCHK’s Annual Report.
5. The Brunei Guidelines require that Banks should have a policy on payment of dividends and should communicate the same to its shareholders. BOCHK is a wholly-owned subsidiary of BOCHK (Holdings) which has disclosed the dividend policy in its Annual Report pursuant to relevant requirement of the Hong Kong Listing Rules.

6. The Brunei Guidelines require that the nomination committee determines annually, and as and when circumstances require, if a director is independent. According to the Mandate of BOCHK's Nomination and Remuneration Committee, the said Committee shall, on an ongoing basis, assess the independence of the independent non-executive directors. Besides, the independent non-executive directors are required to inform BOCHK as soon as practicable if there is any change of circumstances which may affect their independence.
7. According to the Brunei Guidelines, the Board should state in the Bank's Annual Report how the assessment of the Board, its Board Committees and each director has been conducted. If an external facilitator has been used, the Board should disclose in the Bank's Annual Report whether the external facilitator has any other connection with the Bank or any of its directors. BOCHK's Annual Report has disclosed how the assessment of the Board, its Board Committees and each director has been conducted. While there is currently no external facilitator engaged, BOCHK has engaged an external professional consultant to conduct independent review of the effectiveness of the individual directors.
8. The Brunei Guidelines require the Board should also comment in the Bank's Annual Report on whether it has received assurance from the Chief Executive Officer ("CEO") and the Chief Financial Controller ("CFO") (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Bank's operations and finances; and (b) regarding the effectiveness of the Bank's risk management and internal control systems. As disclosed in the Corporate Governance section of BOCHK's Annual Report: (i) the directors are required by the Hong Kong Companies Ordinance to prepare financial statements that give a true and fair view of the state of affairs of BOCHK, and the directors are responsible for ensuring that the accounting records kept by BOCHK at any time reasonably and accurately reflect the financial position of BOCHK; and (2) the Board oversees the Management in the design, implementation and monitoring of the risk management and internal control systems; according to the Board's scope of delegation, the Management is responsible for the day-to-day operations and risk management, and the Management needs to provide a confirmation to the Board on the effectiveness of these systems.