



(Incorporated in Hong Kong)
Brunei Darussalam Branch
Registered No. RFC20001023

Branch Accounts as at and for the years ended
31 December 2023 and 2022

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Notation

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

The above documents may be downloaded from our website (<https://www.bankofchina.com.bn/en-bn/top/about-us/investor-relations.html>) or obtained electronically via 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 No.56244, Simpang 22,
Jalan Dato Ratna, Kampong Kiarong,
Bandar Seri Begawan, BE1318, Brunei Darussalam

Report on the Audits 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 2023 and 2022, and of its financial performance, changes in Head Office account and cash flows for the years 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 statements of financial position as at 31 December 2023 and 2022;
- the statements of profit or loss and other comprehensive income for the years ended 31 December 2023 and 2022;
- the statements of changes in Head Office account for the years ended 31 December 2023 and 2022;
- the statements of cash flows for the years ended 31 December 2023 and 2022; and
- the notes to the financial statements, including material accounting policy information

Basis for Opinion

We conducted our audits 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 disclosures set out on Appendix 1, but does not include the financial statements 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to 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.

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.



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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 Yui".

Chai Xiang Yui
Partner

Brunei Darussalam
27 March 2024

Statements of Financial Position

As at 31 December 2023 and 2022

| | Notes | 2023 B\$'000 | 2022 B\$'000 |
|--|-------|-----------------|-----------------|
| Assets | | | |
| Cash | 4 | 1,927 | 2,893 |
| Balances with Brunei Darussalam Central Bank | 5 | 70,781 | 67,565 |
| Deposits with banks and other financial institutions | 6 | 684 | 652 |
| Government sukuk | 7 | 72,399 | 33,469 |
| Group balances receivable, net | 8 | 339,593 | 297,950 |
| Loans and advances, net | 9 | 282,095 | 331,178 |
| Other assets, net | 10 | 594 | 443 |
| Property and equipment, net | 11 | 986 | 857 |
| Intangible assets, net | 12 | 47 | - |
| Deferred tax assets, net | 13 | 558 | 248 |
| Total assets | | 769,664 | 735,255 |
| Liabilities and Head Office Account | | | |
| Deposits from customers | 14 | 409,920 | 359,873 |
| Deposits from banks and other financial institutions | 15 | 41,513 | 87,367 |
| Group balances payable | 16 | 175,494 | 152,076 |
| Other liabilities | 17 | 21,649 | 23,917 |
| Provision for taxation | 18 | 2,327 | 1,523 |
| Head office account | | 118,761 | 110,499 |
| Total liabilities and head office account | | 769,664 | 735,255 |

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 2023 and 2022, and the financial performance and cash flows of the Branch for the years 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

27 MAR 2024


 Zheng Gang

Deputy General Manager

Statements of Profit or Loss and Other Comprehensive Income

For the years ended 31 December 2023 and 2022

| | Notes | 2023 B\$'000 | 2022 B\$'000 |
|--|-------|-----------------|-----------------|
| Interest income | 20 | 30,033 | 15,784 |
| Interest expense | 20 | (14,548) | (5,267) |
| Net interest income | | 15,485 | 10,517 |
| Fee and commission income | 21 | 5,868 | 7,104 |
| Fee and commission expense | 21 | (862) | (474) |
| Net fee and commission income | | 5,006 | 6,630 |
| Other operating loss | 22 | (420) | (167) |
| Total operating income | | 20,071 | 16,980 |
| Staff costs | 23 | (5,537) | (5,240) |
| Other expenses | 24 | (2,258) | (3,202) |
| Total operating expenses | | (7,795) | (8,442) |
| Net operating income | | 12,276 | 8,538 |
| Net impairment charge | 25 | (1,668) | (270) |
| Profit before taxation | | 10,608 | 8,268 |
| Tax expense | 18 | (2,336) | (1,280) |
| Profit for the year | | 8,272 | 6,988 |
| Other comprehensive loss | | (10) | (2) |
| Total comprehensive income for the year | | 8,262 | 6,986 |

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

Statements of Changes in Head Office Account

For the years ended 31 December 2023 and 2022

| | | Assigned capital | Statutory reserve | Fair value reserve | Accumulated income | Total |
|--------------------------------|------|---------------------|----------------------|-----------------------|-----------------------|---------|
| | Note | B\$'000 | B\$'000 | B\$'000 | B\$'000 | B\$'000 |
| Balance as at 1 January 2022 | | 100,037 | 3,484 | - | (8) | 103,513 |
| Fair value changes | | - | - | (2) | - | (2) |
| Profit for the year | | - | - | - | 6,988 | 6,988 |
| Transfer during the year | 26 | - | 3,494 | - | (3,494) | - |
| Balance as at 31 December 2022 | | 100,037 | 6,978 | (2) | 3,486 | 110,499 |
| Fair value changes | | - | - | (10) | - | (10) |
| Profit for the year | | - | - | - | 8,272 | 8,272 |
| Transfer during the year | 26 | - | 4,136 | - | (4,136) | - |
| Balance as at 31 December 2023 | | 100,037 | 11,114 | (12) | 7,622 | 118,761 |

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

Statements of Cash Flows

For the years ended 31 December 2023 and 2022

| | Notes | 2023 B\$'000 | 2022 B\$'000 |
|--|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before taxation | | 10,608 | 8,268 |
| Adjustment for non-cash items: | | | |
| Depreciation and amortisation | 24 | 503 | 843 |
| Interest income | 20 | (30,033) | (15,784) |
| Interest expense | 20 | 14,548 | 5,267 |
| Net impairment charge | 25 | 1,668 | 270 |
| Operating loss before changes in operating assets and liabilities | | (2,706) | (1,136) |
| Changes in operating assets and liabilities | | | |
| (Increase) decrease in: | | | |
| Balances with Brunei Darussalam Central Bank | | (6,397) | 6,637 |
| Group balances receivable | | (41,819) | (158,800) |
| Loans and advances | | 47,533 | 47,722 |
| Other assets | | (151) | 139 |
| Increase (decrease) in: | | | |
| Deposits from customers | | 48,759 | 124,544 |
| Deposits from banks and other financial institutions | | (45,693) | 64,246 |
| Group balances payable | | 23,375 | (53,761) |
| Other liabilities | | (2,589) | 1,383 |
| Cash generated from operations | | 20,312 | 30,974 |
| Interest received | | 28,304 | 15,087 |
| Interest paid | | (13,368) | (4,749) |
| Income tax paid | | (1,842) | (822) |
| Net cash from operating activities | | 33,406 | 40,490 |
| Cash flows from investing activities | | | |
| Acquisition of investments in Government sukuk | | (214,717) | (60,111) |
| Maturities of investments in Government sukuk | | 177,543 | 37,800 |
| Purchase of property and equipment | 11 | (108) | (95) |
| Purchase of intangible assets | 12 | (47) | - |
| Net cash flows used in investing activities | | (37,329) | (22,406) |
| Cash flows from financing activities | | | |
| Payment of principal portion of lease liabilities | 17 | (182) | (206) |
| Interest paid on lease liabilities | 17 | (10) | (3) |
| Net cash flows used in financing activities | | (192) | (209) |
| Net change in cash and cash equivalents | | (4,115) | 17,875 |
| Cash and cash equivalents as at beginning of the year | | 41,999 | 24,124 |
| Cash and cash equivalents as at end of the year | | 37,884 | 41,999 |

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

Notes to the Financial Statements

As at and for the years ended 31 December 2023 and 2022

(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 its 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 its activities during the year ended 31 December 2023.

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 the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the management of the Branch on 27 March 2024.

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 2023 and 2022.

(iii) 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. Material accounting policies

3.1 Amendments to existing standards that became effective as at 1 January 2023

The Branch has adopted the following amendments to existing standards effective 1 January 2023:

- Amendments to IAS 1, 'Presentation of Financial Statements' and IFRS Practice Statement 2

The amendments requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) 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.

To support this amendment, IFRS Practice Statement 2, Making Materiality Judgements, was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The adoption of these amendments resulted in changes in the accounting policies disclosed by the Branch.

- Amendments to IAS 8, 'Definition of Accounting Estimates'

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors 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, whereas 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.

There are no other new standards, interpretations and amendments to existing standards effective 1 January 2023 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 2023 reporting period and have not been early adopted by the Branch:

- IAS 1, Presentation of Financial Statements (Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants) (effective 1 January 2024)

Amendments made to IAS 1 Presentation of Financial Statements in 2020 and 2022 clarified 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 entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

The amendments require disclosures if an entity classifies a liability as non-current and that liability is subject to covenants that the entity must comply with within 12 months of the reporting date. The disclosures include:

- the carrying amount of the liability
- information about the covenants, and
- facts and circumstances, if any, that indicate that the entity may have difficulty complying with the covenants.

The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instrument can only be ignored for the purpose of classifying the liability as current or non-current if the entity classifies the option as an equity instrument. However, conversion options that are classified as a liability must be considered when determining the current/non-current classification of a convertible note.

The amendments must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Special transitional rules apply if an entity had early adopted the 2020 amendments regarding the classification of liabilities as current or non-current.

The adoption of the above amendment is not expected to have a material impact on the financial statements of the Branch.

3.3 Property and equipment

Property and equipment mainly comprise of furniture, fixtures & equipment located in the Branch and office. All property and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such write-down is recognised in profit or loss.

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.

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.

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, classification and initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. All financial instruments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Loans and receivables 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.

Financial assets

The Branch classifies its financial assets into one of the following measurement categories at initial recognition and 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.

The Branch has no financial assets measured at FVPL as at 31 December 2023 and 2022.

Subsequent measurement

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.

Financial assets at FVOCI

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

The Branch classifies its financial liabilities as amortised cost.

Financial liabilities held at amortised cost

Deposits from customers and institutions, group balances payable and other liabilities 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. The Branch has no liabilities classified at FVPL as at 31 December 2023 and 2022.

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.

The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Branch also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different in which case a new financial liability based on the modified terms is recognised at fair value.

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 2023 and 2022, 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 and other comprehensive income.

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.

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 adjustment 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 Skim Persaraan Kebangsaan (SPK), previously known as Tabung Amanah Pekerja (TAP), and Supplemental Contributory Pension Fund (SCP), where fund for the payment of monthly contributions are made to the SPK based on a percentage of the gross emoluments excluding certain allowances. The percentage of contributions was determined by SPK and provided for all members of the local staff.

3.13 Cash and cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less and are readily convertible to known amount of cash and which are subject to insignificant changes in value.

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.

The 'recoverable amount' of an asset 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Such impairment loss is recognised in statement of profit or loss and other comprehensive income.

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

The Branch as a lessee, recognises and measures 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 payments. Subsequently, the Branch recognise interest expense through the unwinding of the lease liability, and the expense on the depreciation of the right-of-use asset.

After the commencement date of the lease, 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. If the Branch is reasonably certain to exercise a purchase option, then the right-of-use asset will be depreciated to the end of the useful life of the underlying asset.

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. The Branch has short-term and low value leases as at 31 December 2023 and 2022. Expenses related to the short-term and low value leases are recognised in Other expenses (Note 24).

3.16 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:

| | 2023 B\$'000 | 2022 B\$'000 |
|--------------|-----------------|-----------------|
| Cash on hand | 1,927 | 2,893 |

5. Balances with Brunei Darussalam Central Bank (BDCB)

This account as at 31 December consists of:

| | 2023 B\$'000 | 2022 B\$'000 |
|---------------------------|-----------------|-----------------|
| Balances placed with BDCB | 35,273 | 38,454 |
| Minimum cash reserve | 35,508 | 29,111 |
| | 70,781 | 67,565 |

The minimum cash reserve is maintained as required by the provisions of Section 45 of the Brunei Darussalam Banking Order 2006. This is not available for use in the Branch's day to day operations. At 31 December 2023 and 2022, the minimum cash reserve requirement is 6% of the deposit liabilities and is not earning interest.

In 2023, balances placed with BDCB amounting to B\$35.3 million (2022 - B\$38.5 million) are considered as cash equivalent in the statement of cash flows and is not earning interest.

Balances with BDCB are considered fully performing as at 31 December 2023 and 2022. Hence, no impairment is recognised.

6. Deposits with banks and other financial institutions

This account as at 31 December consists of:

| | 2023 B\$'000 | 2022 B\$'000 |
|-------------------|-----------------|-----------------|
| At amortised cost | 684 | 652 |

Deposits with banks and other financial institutions are interest earning deposits that are due on demand. This is considered as cash equivalent in the statement of cash flows.

As of 31 December 2023 and 2022, there is no impairment allowance recognised as the deposits with banks and other financial institutions are fully performing.

7. Government sukuk, net

This account as at 31 December consists of:

| | 2023 B\$'000 | 2022 B\$'000 |
|--------------------------------------|-----------------|-----------------|
| Debt instrument at FVOCI: | | |
| <u>Government sukuk held</u> | | |
| Original maturity less than one year | 72,406 | 33,473 |
| Less: Impairment allowance | | |
| - Stage 1 (Note 25) | (7) | (4) |
| | <u>72,399</u> | <u>33,469</u> |

The Branch classifies Government sukuk as financial asset at FVOCI. Government sukuk bears annual interest rates ranging from 0.75% to 3.81% in 2023 (2022 - 0.19% to 3.63%).

8. Group balances receivable, net

This account as at 31 December consists of receivable from:

| | 2023 B\$'000 | 2022 B\$'000 |
|--|-----------------|-----------------|
| <u>Name of the company</u> | | |
| Bank of China (Hong Kong) Limited, Hong Kong (Note 28) | 339,606 | 297,951 |
| Less: Impairment allowance | | |
| - Stage 1 (Note 25) | (13) | (1) |
| | 339,593 | 297,950 |

The group balances receivables are current, unsecured, collectible at gross amount on demand and bear annual interest rates ranging from 1.20% to 4.55% in 2023 (2022 - 0.25% to 4.35%).

9. Loans and advances, net

Loans and advances as at 31 December analysed by type are as follows:

| | 2023 B\$'000 | 2022 B\$'000 |
|--------------------------------------|-----------------|-----------------|
| Term loans | | |
| - Property loans | 4,274 | 5,183 |
| - Other term loans | 49 | 508 |
| Syndicated loans | 126,370 | 127,205 |
| Overdrafts | 5,260 | 4,511 |
| Trade finance | 149,328 | 195,300 |
| Gross loans and advances | 285,281 | 332,707 |
| Less: Impairment allowance (Note 25) | | |
| - Stage 1 | (1,339) | (1,529) |
| - Stage 2 | (1,847) | - |
| Loans and advances, net | 282,095 | 331,178 |

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

| | 2023 | 2022 |
|-------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| Current | 198,602 | 217,923 |
| Non-current | 83,493 | 113,255 |
| | 282,095 | 331,178 |

In 2023, loans and advances bear annual interest rates ranging from 2.85% to 7.79% (2022 - 0.90% to 7.08%).

10. Other assets, net

This account as at 31 December consists of:

| | 2023 | 2022 |
|----------------------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| Other receivables | 295 | 146 |
| Prepayments | 300 | 298 |
| Less: Impairment allowance | | |
| - Stage 1 (Note 25) | (1) | (1) |
| | 594 | 443 |

11. Property and equipment, net

The composition and movement of this account follows:

| <u>Cost</u> | Right-of- use assets B\$'000 | Renovation B\$'000 | Furniture, fixtures & equipment B\$'000 | Motor vehicles B\$'000 | Total B\$'000 |
|--|---|-------------------------------|--|---------------------------------------|--------------------------|
| As at 1 January 2022 | 673 | 1,578 | 946 | 307 | 3,504 |
| Additions | 333 | - | 95 | - | 428 |
| Lease expiration | (537) | - | - | - | (537) |
| As at 31 December 2022 | 469 | 1,578 | 1,041 | 307 | 3,395 |
| Additions | 524 | - | 108 | - | 632 |
| Lease expiration | (183) | - | - | - | (183) |
| As at 31 December 2023 | 810 | 1,578 | 1,149 | 307 | 3,844 |
| <u>Accumulated depreciation and amortisation</u> | | | | | |
| As at 1 January 2022 | (530) | (1,044) | (507) | (207) | (2,288) |
| Depreciation charge for the year | (359) | (258) | (119) | (51) | (787) |
| Lease expiration | 537 | - | - | - | 537 |
| As at 31 December 2022 | (352) | (1,302) | (626) | (258) | (2,538) |
| Depreciation charge for the year | (196) | (163) | (121) | (23) | (503) |
| Lease expiration | 183 | - | - | - | 183 |
| As at 31 December 2023 | (365) | (1,465) | (747) | (281) | (2,858) |
| Net book value as at 31 December 2022 | 117 | 276 | 415 | 49 | 857 |
| Net book value as at 31 December 2023 | 445 | 113 | 402 | 26 | 986 |

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

12. Intangible assets, net

The movement of this account follows:

| | Computer Software B\$'000 |
|---------------------------------------|--|
| <u>Cost</u> | |
| As at 1 January 2022 | 1,283 |
| Additions | - |
| As at 31 December 2022 | 1,283 |
| Additions | 47 |
| As at 31 December 2023 | 1,330 |
| <u>Accumulated amortisation</u> | |
| As at 1 January 2022 | (1,227) |
| Amortisation charge for the year | (56) |
| As at 31 December 2022 | (1,283) |
| Amortisation charge for the year | - |
| As at 31 December 2023 | (1,283) |
| Net book value as at 31 December 2022 | - |
| Net book value as at 31 December 2023 | 47 |

13. Deferred tax assets, net

The composition and movement of the deferred tax assets (liabilities) follows:

| | Impairment allowance B\$'000 | Accelerated depreciation for tax B\$'000 | Right-of- use assets and lease liabilities under IFRS 16 B\$'000 | Total B\$'000 |
|--------------------------------------|---|---|---|--------------------------|
| As at 1 January 2022 | 242 | (120) | 10 | 132 |
| Credited to profit or loss (Note 18) | 50 | 38 | 28 | 116 |
| As at 31 December 2022 | 292 | (82) | 38 | 248 |
| Credited to profit or loss (Note 18) | 306 | 1 | 3 | 310 |
| As at 31 December 2023 | 598 | (81) | 41 | 558 |

14. Deposits from customers

This account, analysed by type of deposit, as at 31 December consists of:

| | 2023 | 2022 |
|------------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| Demand deposits | 11,375 | 14,402 |
| Savings deposits | 210,127 | 246,388 |
| Fixed deposits | 188,418 | 99,083 |
| | 409,920 | 359,873 |

Analysed by type of customers as at 31 December:

| | 2023 | 2022 |
|----------------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| Business enterprises | 345,464 | 327,545 |
| Individuals | 64,456 | 32,328 |
| | 409,920 | 359,873 |

Deposits from customers bear an average annual interest rate of 0.15% in 2023 and 2022.

15. Deposits from banks and other financial institutions

| | 2023 | 2022 |
|----------------------------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| Banks and financial institutions | 41,513 | 87,367 |

Deposits from banks and other financial institutions are current in nature, unsecured and earn interest at prevailing market rates. Deposits from banks and other financial institutions bear interest rates ranging from 3.25% to 5.70% (2022 - 4.48%).

16. Group balances payable

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

| | 2023 | 2022 |
|--|----------------|----------------|
| | B\$'000 | B\$'000 |
| <u>Name of the company</u> | | |
| Bank of China (Hong Kong) Limited, Hong Kong (Note 28) | 175,494 | 152,076 |

The group balances payables are current, unsecured, payable on demand and bear annual interest rates ranging from 0.80% to 5.57% in 2023 (2022 - 0.38% to 4.47%).

17. Other liabilities

This account as at 31 December consists of:

| | 2023 | 2022 |
|--|----------------|----------------|
| | B\$'000 | B\$'000 |
| Margin deposits and other payables to customers | 18,270 | 20,924 |
| Creditors and accruals | 2,689 | 2,624 |
| Lease liabilities | 666 | 324 |
| Impairment allowance on loan commitments and financial guarantees: | | |
| - Stage 1 (Note 25) | 24 | 45 |
| | 21,649 | 23,917 |

The carrying amount of lease liabilities and the movements during the years ended 31 December are as follows:

| | 2023 | 2022 |
|---------------------------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| As at 1 January | 324 | 197 |
| Additions | 524 | 183 |
| Dismantling provision | - | 150 |
| Accretion of interest (Note 20) | 10 | 3 |
| Payment of principal portion | (182) | (206) |
| Interest paid | (10) | (3) |
| As at 31 December | 666 | 324 |

In 2023, the Branch renewed its lease agreement for its office space for a period of three years resulting in an additional lease liability amounting to B\$0.52 million. Correspondingly, additional right-of-use asset was recognised by the Branch amounting to B\$0.52 million (Note 11).

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

| | 2023 B\$'000 | 2022 B\$'000 |
|-------------|-------------------------------|-------------------------------|
| Current | 189 | 123 |
| Non-current | 477 | 201 |
| | 666 | 324 |

In 2023, the total cash outflow relating to leases, including short-term leases, amounts to B\$0.39 million (2022 - B\$0.37 million).

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:

| | 2023 B\$'000 | 2022 B\$'000 |
|----------------------------------|-------------------------------|-------------------------------|
| Tax expense | | |
| - Current tax expense | 2,646 | 1,396 |
| - Deferred tax benefit (Note 13) | (310) | (116) |
| | 2,336 | 1,280 |

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

| | 2023 B\$'000 | 2022 B\$'000 |
|--------------------------|-------------------------------|-------------------------------|
| As at 1 January | 1,523 | 949 |
| Current year tax expense | 2,646 | 1,396 |
| Payments | (1,842) | (822) |
| As at 31 December | 2,327 | 1,523 |

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

| | 2023 B\$'000 | 2022 B\$'000 |
|--|-----------------|-----------------|
| <u>Reconciliation of effective tax rate:</u> | | |
| Profit before taxation | 10,608 | 8,268 |
| Tax calculated at a tax rate of 18.5% | 1,962 | 1,530 |
| Tax effect of non-deductible expenses (net of non-taxable revenue) | 14 | 10 |
| Tax effect of further deduction | (23) | (19) |
| Threshold exemption | (28) | (28) |
| Tax incentives and others | 1 | 11 |
| Change in provision for prior year | 318 | (138) |
| Origination and reversal of temporary differences | 92 | (86) |
| Total | 2,336 | 1,280 |

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.

| | 2023 B\$'000 | 2022 B\$'000 |
|--|-----------------|-----------------|
| <u>Contingencies:</u> | | |
| Letters of credit | 27,111 | 11,511 |
| Guarantees and bonds | 41 | 34,192 |
| | 27,152 | 45,703 |
| <u>Commitments:</u> | | |
| Undrawn credit lines | 33,486 | 7,166 |
| Total contingencies and commitments | 60,638 | 52,869 |

20. Interest income and interest expense

These accounts for the years ended 31 December consist of:

| | 2023 B\$'000 | 2022 B\$'000 |
|--|-----------------|-----------------|
| <u>Interest income</u> | | |
| Loans and advances | 18,461 | 11,112 |
| Group balances receivable | 9,675 | 4,338 |
| Government sukuk | 1,769 | 288 |
| Banks and other financial institutions | 128 | 46 |
| Total interest income | 30,033 | 15,784 |
| <u>Interest expense</u> | | |
| Deposits from customers | (10,944) | (3,112) |
| Group balances payable | (3,124) | (1,501) |
| Deposits from banks and other financial institutions | (470) | (651) |
| Lease liabilities | (10) | (3) |
| Total interest expense | (14,548) | (5,267) |
| Net interest income | 15,485 | 10,517 |

21. Net fee and commission income

This account for the years ended 31 December consists of:

| | 2023 B\$'000 | 2022 B\$'000 |
|--------------------------------------|-----------------|-----------------|
| Loan commissions | 2,903 | 3,183 |
| Payment service fees | 2,768 | 3,619 |
| Currency exchange fees | 98 | 222 |
| Account service fees | 70 | 58 |
| Others | 29 | 22 |
| Fee and commission income | 5,868 | 7,104 |
| Fee and commission expense | (862) | (474) |
| Net fee and commission income | 5,006 | 6,630 |

22. Other operating loss

This account for the years ended 31 December consists of:

| | 2023 | 2022 |
|-----------------------------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| Loss on foreign currency exchange | (420) | (167) |

23. Staff costs

This account for the years ended 31 December consists of:

| | 2023 | 2022 |
|--|----------------|----------------|
| | B\$'000 | B\$'000 |
| Wages and salaries | 3,068 | 2,882 |
| Allowance and bonuses | 1,645 | 1,647 |
| Payroll taxes | 476 | 369 |
| Contributions to defined contribution plan | 126 | 102 |
| Others | 222 | 240 |
| | 5,537 | 5,240 |

24. Other expenses

This account for the years ended 31 December consists of:

| | 2023 | 2022 |
|--|----------------|----------------|
| | B\$'000 | B\$'000 |
| Electronic data processing | 471 | 371 |
| Depreciation and amortisation | 503 | 843 |
| Professional fees | 307 | 359 |
| Administration and general expenses | 282 | 256 |
| Expenses relating to short-term leases | 196 | 229 |
| Advertising and publicity | 117 | 88 |
| Premises and equipment | 106 | 93 |
| Stamp duties | - | 722 |
| Others | 276 | 241 |
| | 2,258 | 3,202 |

Others pertain mainly to expenses incurred for security services and transportation expenses.

25. Net impairment charges

This account for the years ended 31 December consists of:

| | 2023 B\$'000 | 2022 B\$'000 |
|----------------------|-----------------|-----------------|
| Stage 1 | 26 | (268) |
| Stage 2 | (1,677) | - |
| Stage 3 | - | - |
| Exchange differences | (17) | (2) |
| Total | (1,668) | (270) |

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

| | 2023 | | | |
|---|--------------------|--------------------|--------------------|------------------|
| | Stage 1 B\$'000 | Stage 2 B\$'000 | Stage 3 B\$'000 | Total B\$'000 |
| As at 1 January | 1,580 | - | - | 1,580 |
| Provision for (reversal of) impairment loss | (9) | 1,677 | - | 1,668 |
| Transfer | (170) | 170 | - | - |
| Exchange differences | (17) | - | - | (17) |
| As at 31 December | 1,384 | 1,847 | - | 3,231 |

| | 2022 | | | |
|-------------------------------|--------------------|--------------------|--------------------|------------------|
| | Stage 1 B\$'000 | Stage 2 B\$'000 | Stage 3 B\$'000 | Total B\$'000 |
| As at 1 January | 1,312 | - | - | 1,312 |
| Provision for impairment loss | 270 | - | - | 270 |
| Exchange differences | (2) | - | - | (2) |
| As at 31 December | 1,580 | - | - | 1,580 |

The composition of impairment allowance as at 31 December follows:

| | 2023 | | | | | |
|---------------------------|--------------------------------|----------------|----------------|----------------|-----------------------------|----------------------------------|
| | Net impairment charge | | | | Exchange differences | Balance as at 31 December |
| | Balance as at 1 January | Stage 1 | Stage 2 | Stage 3 | | |
| | B\$'000 | B\$'000 | B\$'000 | B\$'000 | B\$'000 | B\$'000 |
| Loans and advances | 1,529 | (173) | 1,847 | - | (17) | 3,186 |
| Government sukuk | 4 | 3 | - | - | - | 7 |
| Group balances receivable | 1 | 12 | - | - | - | 13 |
| Other assets | 1 | - | - | - | - | 1 |
| Financial guarantees | 45 | (21) | - | - | - | 24 |
| | 1,580 | (179) | 1,847 | - | (17) | 3,231 |

| | 2022 | | | | | |
|---------------------------|--------------------------------|----------------|----------------|----------------|-----------------------------|----------------------------------|
| | Net impairment charge | | | | Exchange differences | Balance as at 31 December |
| | Balance as at 1 January | Stage 1 | Stage 2 | Stage 3 | | |
| | B\$'000 | B\$'000 | B\$'000 | B\$'000 | B\$'000 | B\$'000 |
| Loans and advances | 1,270 | 261 | - | - | (2) | 1,529 |
| Government sukuk | 1 | 3 | - | - | - | 4 |
| Group balances receivable | - | 1 | - | - | - | 1 |
| Other assets | 1 | - | - | - | - | 1 |
| Financial guarantees | 30 | 15 | - | - | - | 45 |
| Other commitments | 10 | (10) | - | - | - | - |
| | 1,312 | 270 | - | - | (2) | 1,580 |

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 2023, the Branch transferred B\$4.14 million of its net profit to statutory reserves (2022 - B\$3.49 million). 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 2023

| | Carrying Amount | | | Total B\$'000 |
|---|--|--|--|------------------|
| | Financial assets at amortised cost B\$'000 | Fair value through other comprehensive income B\$'000 | Financial liabilities at amortised cost B\$'000 | |
| <u>Assets</u> | | | | |
| Cash | 1,927 | - | - | 1,927 |
| Balances with Brunei Darussalam | | | | |
| Central Bank | 70,781 | - | - | 70,781 |
| Deposits with banks and other financial institutions | 684 | - | - | 684 |
| Government sukuk, net | - | 72,399 | - | 72,399 |
| Group balances receivables, net | 339,593 | - | - | 339,593 |
| Loans and advances, net | 282,095 | - | - | 282,095 |
| Other assets (excluding prepayments), net | 294 | - | - | 294 |
| | 695,374 | 72,399 | - | 767,773 |
| <u>Liabilities</u> | | | | |
| Deposits from customers | - | - | 409,920 | 409,920 |
| Deposits from banks and other financial institutions | - | - | 41,513 | 41,513 |
| Group balances payable | - | - | 175,494 | 175,494 |
| Other liabilities | - | - | 21,649 | 21,649 |
| | - | - | 648,576 | 648,576 |

As at 31 December 2022

| | Carrying Amount | | | Total B\$'000 |
|---|------------------------------|--|--|------------------|
| | Amortised cost B\$'000 | Fair value through other comprehensive income B\$'000 | Financial liabilities at amortised cost B\$'000 | |
| Assets | | | | |
| Cash | 2,893 | - | - | 2,893 |
| Balances with Brunei Darussalam | | | | |
| Central Bank | 67,565 | - | - | 67,565 |
| Deposits with banks and other financial institutions | 652 | - | - | 652 |
| Government sukuk, net | - | 33,469 | - | 33,469 |
| Group balances receivables, net | 297,950 | - | - | 297,950 |
| Loans and advances, net | 331,178 | - | - | 331,178 |
| Other assets (excluding prepayments), net | 145 | - | - | 145 |
| | 700,383 | 33,469 | - | 733,852 |
| Liabilities | | | | |
| Deposits from customers | - | - | 359,873 | 359,873 |
| Deposits from banks and other financial institutions | - | - | 87,367 | 87,367 |
| Group balances payable | - | - | 152,076 | 152,076 |
| Other liabilities | - | - | 23,917 | 23,917 |
| | - | - | 623,233 | 623,233 |

Determination of fair value

The methodologies and assumptions used in estimating fair value depend on the terms and risk characteristics of the various financial 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 2023 and 2022, the carrying amounts of the other financial assets and liabilities (including cash, balances with Brunei Darussalam Central Bank, group balances receivable, deposits with banks and other financial institutions, other financial assets, group balances payable and other liabilities) approximate their fair values 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

| | 2023 | 2022 |
|------------------------------|----------------|----------------|
| | B\$'000 | B\$'000 |
| Short term employee benefits | 1,509 | 1,178 |
| Post-employment benefits | - | - |
| | 1,509 | 1,178 |

| | 2023 | | |
|---|---------|-----------|---------------|
| | KMP | Close | Other related |
| | B\$'000 | relatives | entities |
| | B\$'000 | B\$'000 | B\$'000 |
| Statement of Profit or Loss and Other Comprehensive Income | | | |
| <u>Income</u> | | | |
| Interest income | - | - | - |
| Other income | - | - | - |
| Total | - | - | - |
| <u>Expense</u> | | | |
| Interest expense | 15 | - | - |
| Other expenses | - | - | - |
| Total | 15 | - | - |
| Statement of Financial Position | | | |
| <u>Assets</u> | | | |
| Loans and advances | - | - | - |
| Credit cards | - | - | - |
| Other assets, net | - | - | - |
| Total | - | - | - |
| <u>Liabilities</u> | | | |
| Deposits | 1,302 | - | - |
| Total | 1,302 | - | - |
| <u>Off balance sheet items</u> | | | |
| Other commitments and contingencies | - | - | - |
| Total | - | - | - |

| | 2022 | | |
|---|---------|-----------|---------------|
| | KMP | Close | Other related |
| | B\$'000 | relatives | entities |
| | B\$'000 | B\$'000 | B\$'000 |
| Statement of Profit or Loss and Other Comprehensive Income | | | |
| <u>Income</u> | | | |
| Interest income | - | - | - |
| Other income | - | - | - |
| Total | - | - | - |
| <u>Expense</u> | | | |
| Interest expense | 4 | - | - |
| Other expenses | - | - | - |
| Total | 4 | - | - |
| Statement of Financial Position | | | |
| <u>Assets</u> | | | |
| Loans and advances | - | - | - |
| Credit cards | - | - | - |
| Other assets, net | - | - | - |
| Total | - | - | - |
| <u>Liabilities</u> | | | |
| Deposits | 658 | - | - |
| Total | 658 | - | - |
| <u>Off balance sheet items</u> | | | |
| Other commitments and contingencies | - | - | - |
| Total | - | - | - |

| | 2023 B\$'000 | 2022 B\$'000 |
|---|-----------------|-----------------|
| Statement of Financial Position | | |
| Group balances receivable | 339,593 | 297,950 |
| Other assets | 199 | 205 |
| Total assets | 339,792 | 298,155 |
| Group balances payable | 175,494 | 152,076 |
| Other liabilities | 760 | 473 |
| Total liabilities | 176,254 | 152,549 |
| Other commitments and contingencies | - | - |
| Total off-balance sheet items | - | - |
| Statement of Profit or Loss and Other Comprehensive Income | | |
| Interest income | 9,675 | 4,428 |
| Total income | 9,675 | 4,428 |
| Interest expense | (3,124) | (1,501) |
| Fees and commission expense | (569) | (421) |
| Other expenses | (21) | (19) |
| Total expenses | (3,714) | (1,941) |

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 2023 and 2022, the balances are unsecured, interest bearing, and collectible on demand. Any collections that occurred in 2023 and 2022 are in cash.

The other liabilities to related parties as at year end are made on terms equivalent to those that prevail in arm's length transactions. As at 31 December 2023 and 2022, the balances are unsecured, interest bearing, and repayable on demand. Any settlements that occurred in 2023 and 2022 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 2023 and 2022, the Branch has recorded impairment of receivables relating to amounts owed by related parties (Note 8). 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 the Head Office's own retained earnings and capital issuance. Capital generated by the Branch in excess of planned requirements is returned to the Head Office by way of repatriations.

The Branch is required to maintain sufficient Capital Funds by the local regulator, 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 years ended 31 December 2023 and 2022.

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.

The capital ratios are analysed as follows:

| | 2023 | 2022 |
|----------------------|--------|--------|
| Tier 1 capital ratio | 39.68% | 31.44% |
| Total capital ratio | 40.14% | 31.89% |

30. Financial risk management

Overview of risk management

The Branch conducts risk assessment in its 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 three 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 for 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 for 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 for risk management and 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 books, 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 operational 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 financial 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, gross of any related impairment allowance.

| Maximum exposure for the year ended 31 December | 2023 | 2022 |
|--|----------------|----------------|
| | B\$'000 | B\$'000 |
| Credit exposure for on-statement of financial position | | |
| <u>Financial assets</u> | | |
| Balances with Brunei Darussalam Central Bank | 70,781 | 67,565 |
| Deposits with banks and other financial institutions | 684 | 652 |
| Government Sukuk | 72,406 | 33,473 |
| Group balances receivable | 339,606 | 297,951 |
| Loans and advances | 285,281 | 332,707 |
| Other assets | 295 | 146 |
| Credit exposure for off-statement of financial position | | |
| <u>Financial assets</u> | | |
| Letters of credit | 27,111 | 11,511 |
| Guarantees, bonds | 41 | 34,192 |
| Undrawn credit lines | 33,486 | 7,166 |
| Total maximum credit exposure | 829,691 | 785,363 |

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 types of collateral taken by the Branch are 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 are 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 its credit obligations to the Branch. The impairment allowance is 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 or 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 defined 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 as at 31 December is summarised in the table that follows:

| 2023 | | | | |
|------------------------------------|----------------|----------------|--------------------|----------------|
| | Pass | Special | Substandard | Total |
| | B\$'000 | Mention | or below | |
| | | B\$'000 | B\$'000 | B\$'000 |
| <u>Loans & advances</u> | | | | |
| Corporate | | | | |
| - Commercial loans - Stage 1 and 2 | 282,365 | 2,916 | - | 285,281 |
| Less: Impairment allowance | (1,339) | (1,847) | - | (3,186) |
| | 281,026 | 1,069 | - | 282,095 |
| 2022 | | | | |
| | Pass | Special | Substandard | Total |
| | B\$'000 | Mention | or below | |
| | | B\$'000 | B\$'000 | B\$'000 |
| <u>Loans & advances</u> | | | | |
| Corporate | | | | |
| - Commercial loans - Stage 1 | 332,707 | - | - | 332,707 |
| Less: Impairment allowance | (1,529) | - | - | (1,529) |
| | 331,178 | - | - | 331,178 |

The following tables present an analysis of other financial assets, gross of impairment allowance, that are neither past due nor impaired as at:

| | 31 December 2023 | | |
|--|-------------------------|----------------|----------------|
| | Unrated | Rated | Total |
| | B\$'000 | B\$'000 | B\$'000 |
| Balances with Brunei Darussalam Central Bank | 70,781 | - | 70,781 |
| Deposits with banks and other financial institutions | - | 684 | 684 |
| Government sukuk | 72,406 | - | 72,406 |
| Group balances receivable | - | 339,606 | 339,606 |
| Other assets | 295 | - | 295 |
| | 143,482 | 340,290 | 483,772 |

| | 31 December 2022 | | |
|--|-------------------------|----------------|----------------|
| | Unrated | Rated | Total |
| | B\$'000 | B\$'000 | B\$'000 |
| Balances with Brunei Darussalam Central Bank | 67,565 | - | 67,565 |
| Deposits with banks and other financial institutions | - | 652 | 652 |
| Government sukuk | 33,473 | - | 33,473 |
| Group balances receivable | - | 297,951 | 297,951 |
| Other assets | 146 | - | 146 |
| | 101,184 | 298,603 | 399,787 |

- **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 for 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, after adjusting for the effect of over-collateralisation and excluding provision made for impairment losses, is shown below:

| Collateral | 2023 | 2022 |
|---|------------------|----------------|
| | B\$'000 | B\$'000 |
| Gross bills receivable, loans and advances | 285,281 | 332,707 |
| Other contingencies and commitments | 60,638 | 52,869 |
| Less: financial effect of collateral held | | |
| - Cash | (21,890) | (23,862) |
| - Properties | (9,081) | (9,429) |
| - Guarantees | (180,516) | (181,135) |
| Net exposure from loans and advances and off statement of financial positions items | 134,432 | 171,150 |

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:

| | 2023 B\$'000 | 2022 B\$'000 |
|--|-----------------|-----------------|
| <u>Loans and advances:</u> | | |
| Manufacturing | 188,584 | 241,309 |
| Residential & commercial property | 27,539 | 50,314 |
| Infrastructure | 20,197 | 26,864 |
| Agricultural | 19,648 | - |
| Services | 15,867 | 378 |
| Telecommunication and information technology | 13,205 | 13,438 |
| Traders | 241 | 404 |
| | 285,281 | 332,707 |
| Less: Impairment allowance | (3,186) | (1,529) |
| | 282,095 | 331,178 |

(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 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):

| | Assets | Assets |
|--|----------------|----------------|
| | 2023 | 2022 |
| | B\$'000 | B\$'000 |
| <u>Net trading position:</u> | | |
| Australian Dollar | 2 | 1 |
| Chinese Yuan | 28 | 43 |
| Euro | 2 | 3 |
| Hong Kong Dollar | 102 | 324 |
| New Zealand Dollar | 2 | - |
| United States Dollar | 908 | 976 |
| | 1,044 | 1,347 |
| | 2023 | 2022 |
| | B\$'000 | B\$'000 |
| <u>Net structural position:</u> | | |
| 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 the profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

| | Impact on profit or loss | |
|-------------------------------------|---------------------------------|----------------|
| | 2023 | 2022 |
| | B\$'000 | B\$'000 |
| <u>Net trading position:</u> | | |
| Australian Dollar | (0.2) | (0.1) |
| Chinese Yuan | (2.8) | (4.3) |
| Euro | (0.2) | (0.3) |
| Hong Kong Dollar | (10.2) | (32.4) |
| New Zealand Dollar | (0.2) | - |
| United States Dollar | (90.8) | (97.6) |
| | (104.4) | (134.7) |

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 in the previous page, on the basis that all other variables remain constant.

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

Interest rate risk means the risk to a Branch's earnings and economic value arising from movements in interest rate and term structures of the Branch's asset and liability position. 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 Risk Management and Internal Control Committee (RMICC) 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 (RC) Department is responsible for monitoring 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. The Finance and Accounting Department also 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 | |
|-------|--|---------------|--------------------------------------|---------------|
| | 2023 B\$'M | 2022 B\$'M | 2023 B\$'M | 2022 B\$'M |
| Total | 1.73 | 1.07 | (0.69) | (1.06) |

(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 obligations as they fall due. The Branch 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 RMICC, 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 is in compliance with Section 45(1) of the Banking Order, 2006 to maintain minimum cash balance with the BDCB during the years ended 31 December 2023 and 2022.

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.

As at 31 December 2023

| | Carrying amount B\$'000 | Gross nominal outflow B\$'000 | Up to 1 month B\$'000 | 1-3 months B\$'000 | 3-12 months B\$'000 | 1-3 years B\$'000 | More than 3 years B\$'000 |
|---|-------------------------------|--|-----------------------------|--------------------------|---------------------------|-------------------------|---------------------------------|
| <u>Liabilities</u> | | | | | | | |
| Deposits from customers | 409,920 | 412,303 | 290,616 | 2,697 | 114,041 | 4,949 | - |
| Deposits from banks and other financial institutions | 41,513 | 41,549 | 41,549 | - | - | - | - |
| Group balances payable | 175,494 | 175,620 | 175,620 | - | - | - | - |
| Other liabilities | 20,983 | 20,983 | 3,294 | 475 | 17,137 | 77 | - |
| Lease liabilities | 666 | 666 | 40 | 28 | 129 | 469 | - |
| | 648,576 | 651,121 | 511,119 | 3,200 | 131,307 | 5,495 | - |

As at 31 December 2022

| | Carrying amount B\$'000 | Gross nominal outflow B\$'000 | Up to 1 month B\$'000 | 1-3 months B\$'000 | 3-12 months B\$'000 | 1-3 years B\$'000 | More than 3 years B\$'000 |
|---|-------------------------------|--|-----------------------------|--------------------------|---------------------------|-------------------------|---------------------------------|
| <u>Liabilities</u> | | | | | | | |
| Deposits from customers | 359,873 | 360,722 | 275,724 | 62,488 | 14,219 | 8,291 | - |
| Deposits from banks and other financial institutions | 87,367 | 87,562 | 87,562 | - | - | - | - |
| Group balances payable | 152,076 | 152,298 | 107,585 | 44,713 | - | - | - |
| Other liabilities | 23,593 | 23,593 | 1,659 | 563 | 21,322 | 49 | - |
| Lease liabilities | 324 | 324 | 15 | 50 | 58 | 201 | - |
| | 623,233 | 624,499 | 472,545 | 107,814 | 35,599 | 8,541 | - |

(vi) Operational risk

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

This is achievable through:

- (i) improving operational risk governance framework including management policies, procedures, organisational division of functions, accountability and responsibility as well as reporting system;
- (ii) promoting the operational risk management culture, strengthening the awareness and expertise of the management and staff towards operational risk management; and
- (iii) establishing operational risk management processes, methodologies and modelling techniques to enhance the Branch's operational risk management capabilities.

Pursuant to Operational Risk definition of Bank of China Limited and BDCB Guidelines on Operational Risk Management for Banks, and taking into account the relevant definition of the Basel Committee on Banking Supervision (BCBS), 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 reputational risk. Operational risk is inherent in all banking products, activities, processes and systems and confronted by the Bank in its day-to-day operational activities. Where appropriate, strategic and reputational risks should be considered under operational risk management framework.

The Branch has implemented the "Three Lines of Defence" system for the operational risk management at the departmental/ functional level:

First line of defence

- All departments, being the frontline unit directly exposed to operational risk and responsible for executing the various risk management policies and business operations and procedures, as the first line of defence of the Branch. The first line of defence is the first party responsible for operational risk management and carries out the duties and functions of managing and controlling their business operations through self-assessment, self-checking, self-correction and self-development.

- Responsibly handle day-to-day management and reporting of operational risk issues in their units.
- Ensure all the information made available and reported in connection with operational risk management are complete, correct and timely.
- Ensure their internal control measures and operating procedures and operational risk management tools are in accordance with the requirements and management procedure and properly executed.
- Ensure all their major products, business and process are in compliance with the appropriate implementation rules and equipped with proper staffing and training.

Second line of defence

The second line of defence of operational risk management of the Branch is composed of the Risk and Compliance Department which is independent from business units, and other specialist functional units, such as Finance Department & Administrative Department.

In addition to managing the operational risk of their own unit, the specialist functional units of the second line of defence for operational risk shall also be responsible for the specific aspects of operational risk and related issues of the Branch. The specialist functional units shall meet the management requirements of the Risk and Compliance Department. These units, apart from taking charge of operational risk management in their own 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, including:

| Department | Responsibilities |
|---------------------|---|
| Risk and Compliance | <ul style="list-style-type: none"> - Leading unit of operational risk management, being independent from the various business units, - Leads the management of legal and compliance risk, money laundering risk, the management of fraud risk; - Responsible for assisting management in managing the Branch's operational risk. Its main responsibilities are to: <ul style="list-style-type: none"> a) propose the relevant operational risk management policy and submit it to the Country Head/General Manager for approval; b) design the operational risk assessment methodologies, tools and reporting mechanism (including operational risk events loss data capturing); c) monitor the implementation status of policies and operational procedures in the departments of the first line of defence through operational risk management tools (including Risk & Control Assessment and Key Risk Indicators), and checking, etc; |

| | |
|----------------------|---|
| | <ul style="list-style-type: none"> d) analyse Operational Risk and Control Self-Assessment, Key Risk Indicators and loss events to study trends in the Branch's operational risk exposure, and suggest changes in processes and control measures, if necessary, to control the level of operational risk; e) report risk events and operational losses, and monitor corrective and remedial actions, including any new processes and procedures introduced; f) monitor the specialist functional units at the second line of defence on carrying out their duties to manage relevant operational risk that is / are under their responsibilities; g) assess and report the Branch's overall operational risk position to Branch Management and Country Head/General Manager. h) work alongside other relevant functions responsible for managing and addressing any risks that threaten the delivery of critical operations and for coordinating business continuity planning, third-party dependency management, recovery and resolution planning and other relevant risk management frameworks to strengthen operational resilience across the Branch. i) design and provide operational risk management training, including to instill risk awareness, and advising the departments of the first line of defence on operational risk management issues. j) liaise with internal and external audits for matters in relation to operational risk management. |
| Administrative | Leads the management of people risk, information and technology risk (including cyber security risk), "Three preventions" and security risk; |
| Finance & Accounting | <ul style="list-style-type: none"> - Leads the management of financial and accounting risk. - In respect of the calculation of operational risk, Finance Department is responsible for recalculating net interest income amongst business lines in accordance with the results from adopting the transfer pricing mechanism as stipulated by the Treasury; as well as using the compiled data to calculate capital charge for operational risk in strict accordance with Basic Indicator Approach (BIA)., ensuring the calculation accuracy and to prepare the related statutory returns to the local regulatory and other relevant statutory bodies, if any. |

Through using appropriate operational risk management methods and tools, they shall assist the first line of defence to assess and control the operational risk, provide guidance and inspect the operational risk management of the first line of defence, report the operational risk status to Risk and Compliance Department, risk issues identified and follow-up arrangement. The Risk and Compliance Department shall monitor their managerial duties of the second line of defence with respect to specific aspects of operational risk and its related issues.

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, the Brunei Branch applied locally the three lines of defence in accordance with the BOCHK model. The Brunei Branch's Risk & Compliance Department is the second line of defence to lead operational risk management and report operational risk situation to its management and BOCHK Legal & Compliance and Operational Risk Management Department ("LCO"). The Senior Management of the Brunei Branch has direct responsibilities for operational risk management.

The 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.

The 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. KRI 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.

The Brunei Branch has established business continuity plans to support business operations in the event of an emergency or disaster. Adequate back-up facilities are maintained and periodic drills are conducted. Under the guidance of BOCHK LCO, the 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 beyond the next 12 months) follow:

| As at 31 December 2023 | Current B\$'000 | Non-current B\$'000 | Total B\$'000 |
|--|----------------------------|--------------------------------|--------------------------|
| <u>Assets</u> | | | |
| Cash | 1,927 | - | 1,927 |
| Balances with Brunei Darussalam Central Bank | 70,781 | - | 70,781 |
| Deposits with banks and other financial institutions | 684 | - | 684 |
| Government sukuk | 72,399 | - | 72,399 |
| Group balances receivable | 339,593 | - | 339,593 |
| Loans and advances, net | 198,602 | 83,493 | 282,095 |
| Other assets, net | 490 | 104 | 594 |
| Property and equipment | 349 | 637 | 986 |
| Intangible assets, net | 15 | 32 | 47 |
| Deferred tax assets | - | 558 | 558 |
| | 684,840 | 84,824 | 769,664 |
| <u>Liabilities and Head Office Account</u> | | | |
| Deposits from customers | 405,357 | 4,563 | 409,920 |
| Deposits from banks and other financial institutions | 41,513 | - | 41,513 |
| Group balances payable | 175,494 | - | 175,494 |
| Other liabilities | 21,103 | 546 | 21,649 |
| Provision for taxation | 2,327 | - | 2,327 |
| Head Office Account | - | 118,761 | 118,761 |
| | 645,794 | 123,870 | 769,664 |

| As at 31 December 2022 | Current B\$'000 | Non-current B\$'000 | Total B\$'000 |
|--|----------------------------|--------------------------------|--------------------------|
| <u>Assets</u> | | | |
| Cash | 2,893 | - | 2,893 |
| Balances with Brunei Darussalam Central Bank | 67,565 | - | 67,565 |
| Deposits with banks and other financial institutions | 652 | - | 652 |
| Government sukuk | 33,469 | - | 33,469 |
| Group balances receivable | 297,950 | - | 297,950 |
| Loans and advances | 217,923 | 113,255 | 331,178 |
| Other assets, net | 339 | 104 | 443 |
| Property and equipment | 416 | 441 | 857 |
| Deferred tax assets | - | 248 | 248 |
| | 621,207 | 114,048 | 735,255 |
| <u>Liabilities and Head Office Account</u> | | | |
| Deposits from customers | 352,155 | 7,718 | 359,873 |
| Deposits from banks and other financial institutions | 87,367 | - | 87,367 |
| Group balances payable | 152,076 | - | 152,076 |
| Other liabilities | 23,667 | 250 | 23,917 |
| Provision for taxation | 1,523 | - | 1,523 |
| Head Office Account | - | 110,499 | 110,499 |
| | 616,788 | 118,467 | 735,255 |

BDCB Notice No. BUN-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 is committed to maintaining and upholding high standards of corporate governance in order to safeguard the interests of its 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 Management. The Board authorises 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. 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 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 fulfils 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 for 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 protecting and upholding 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 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 three 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 three 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 the 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.