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

(Incorporated in Hong Kong)
Brunei Darussalam Branch

Branch Accounts for the year ended 31 December 2019

Contents

Notation

AMBD Notice No. BU/N-3/2018/53 – Pillar 3 – Public Disclosure Requirements

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

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of **Bank of China (Hong Kong) Limited – Brunei Branch** ("the Branch"), which comprise the statement of financial position as at 31st December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in head office account and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

In our opinion,

a) the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31st December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the provisions of the Brunei Darussalam Companies Act, Cap. 39 and International Financial Reporting Standards according to the best of our information and the explanations given to us and as shown by the books of the Branch.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the corporate governance and regulatory disclosure set out on appendices 1 and 2.

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

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INDEPENDENT AUDITOR'S REPORT

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

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information 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 Companies Act, Cap. 39 and International Financial Reporting Standards, 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.

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.

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INDEPENDENT AUDITOR'S REPORT

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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.

ERNST & YOUNG
Public Accountants

KONG EE PIN
Registered Public Accountant

Brunei Darussalam
30th March 2020

Statement of Financial Position
As at 31 December

	Notes	2019 B$'000	2018 B$'000
Assets			
Cash and short term funds	4	4,083	2,633
Balances with Autoriti Monetari Brunei Darussalam	5	47,650	17,305
Deposits with banks and other financial institutions	6	145	17
Government Sukuk	7	19,271	11,680
Group balances receivable	8	182,044	108,374
Loans and advances to customers	9	138,985	68,147
Other assets	11	446	466
Property and equipment	12	2,722	2,510
Deferred tax assets	16	297	110
Total Assets		395,643	211,242
Liabilities and Head Office Account			
Deposits from customers	13	174,055	109,413
Group balances payable	14	107,207	42,404
Other liabilities	15	56,307	2,395
Taxation	16	-	-
Head Office Account		58,074	57,030
Total Liabilites and Head Office Account		395,643	211,242

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 2019 and the financial performance and cash flows of the Branch for the year ended 31 December 2019 in accordance with the provisions of the Brunei Darussalam Companies Act, Cap 39 and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Wang Xiao Lin
General Manager

Zheng Gang
Deputy General Manager

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December

	Notes	01.01.2019 to 31.12.2019 B$'000	01.01.2018 to 31.12.2018 B$'000
Income			
Interest income	18	6,736	4,136
Interest expense	18	(1,762)	(572)
Net Interest Income		4,974	3,564
Fees and commission income	19	796	623
Fees and commission expense	19	(30)	(12)
Net Fee Income		766	611
Other operating income	20	1,223	1,652
Total Operating Income		6,963	5,827
Staff costs	21	(3,009)	(2,985)
Other expenses	22	(2,719)	(2,289)
Total Operating Expenses		(5,728)	(5,274)
Net impairment charges and recoveries	23	(418)	(56)
Profit From Operations		817	497
Profit Before Taxation		817	497
Add: Income tax benefit	16	187	65
Profit For The Year		1,004	562
Other Comprehensive Income			
Items that may be reclassified subsequently to Income Statement:			
Debt Instruments at fair value through other comprehensive income:			
Change in fair value		40	(40)
		40	(40)
Total comprehensive income for the year, net of tax		1,044	522

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

Statement of Changes in Head Office Account

	Note	Assigned Capital	Statutory Reserve	Fair Value Reserve	Accumulated Profit / (Losses)	Total
		B$'000	B$'000	B$'000	B$'000	B$'000
Balance as at 1 January 2018		36,000	-	-	(3,492)	**32,508**
Additional capital		24,000	-	-	-	**24,000**
Fair value changes		-	-	(40)	-	**(40)**
Profit for the year		-	-	-	562	**562**
Transfer during the year		-	281	-	(281)	-
Balance as at 31 December 2018		**60,000**	**281**	**(40)**	**(3,211)**	**57,030**
Balance as at 1 January 2019		60,000	281	(40)	(3,211)	**57,030**
Fair value changes		-	-	40	-	**40**
Profit for the year		-	-	-	1,004	**1,004**
Transfer during the year		-	502	-	(502)	-
Balance as at 31 December 2019		**60,000**	**783**	-	**(2,709)**	**58,074**

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

Cash Flow Statement

As at 31 December

	01.01.2019 to 31.12.2019 BS'000	01.01.2018 to 31.12.2018 BS'000
Cash Flows from Operating Activities		
Profit Before Taxation	817	497
Adjustment for non cash items:		
Depreciation of property and equipment	808	642
Interest income from Government Sukuk	(281)	(77)
Interest expense on lease liabilities	10	-
Net impairment loss on financial assets	418	56
Operating Profit Before Change In Operating Assets and Liabilities	1,772	1,118
Change in Operating Assets and Liabilities		
Balances with Autoriti Monetari Brunei Darussalam	(6,820)	1,220
Deposits from banks and other financial institutions	(128)	-
Group balances receivable	(73,670)	(41,017)
Loans and advances to customers	(71,233)	(19,304)
Other assets	19	(233)
Deposits from customers	64,642	11,717
Group balances payable	64,803	28,971
Other liabilities	53,271	1,258
Cash generated from/(used in) operating activities	32,656	(16,270)
Income tax paid	-	-
Net Cash generated from/(used in) Operating Activities	32,656	(16,270)
Cash Flow from Investing Activities		
Net investment in Government Sukuk	(7,274)	(11,643)
Purchase of property and equipment	(292)	(70)
Net Cash Flows used in Investing Activities	(7,566)	(11,713)
Cash Flow from Financing Activities		
Capital injection from Head Office	-	24,000
Interest expense on lease libilities	(10)	-
Payment of principal portion of lease liabilities	(105)	-
Net Cash Flows (used in)/generated from Financing Activities	(115)	24,000
Net change in cash and cash equivalents	24,975	(3,983)
Cash and Cash Equivalents as at beginning of the year	11,441	15,424
Cash and Cash Equivalents as at end of the year	36,416	11,441
Cash and cash equivalents comprises:-		
Cash and short term funds (Note 4)	4,083	2,633
Balances with Autoriti Monetari Brunei Darussalam (Note 5)	32,333	8,808
	36,416	11,441

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

Notes to the Financial Statements

These notes form an integral part of the financial statements.

1. Corporate Information

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

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

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

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

2. Basis of preparation

2.1 Statement of compliance

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

These financial statements were authorised for issue by the management of the Branch on 30 March 2020.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

(i) 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 Defaults 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 allowances 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;

2.4 Use of estimates and judgements (continued)

- Development of ECL models, including the determination of macroeconomic factor forecasts and the effect on Probability of Defaults, Loss Given Defaults and Exposure at Defaults; 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) Fair valuation of financial instruments – selection of valuation models and data inputs for financial instruments with no active markets

(iii) Provision of income taxes – interpretation of tax regulations on certain transactions and computations.

Please refer to notes 9 and 23 for estimate and judgement applied to the calculation of ECL.

3. Significant accounting policies

Standards, amendments and interpretation that are relevant to the Branch and are initially adopted for the financial year beginning on 1 January 2019.

The Branch has initially applied IFRS 16 "Leases" and other amendment and interpretation from 1 January 2019 onward. Except for IFRS 16, the adoption of applicable standards and interpretations did not have a material effect on the Branch's financial statements. Details are disclosed as below:

- IFRS 16 Leases

IFRS 16 supersedes the existing standard and interpretations related to leases. Significant changes to lessees' accounting are introduced, with the distinction between operating and finance leases removed. Lessees account for all leases in a similar way as the finance lease accounting under IAS 17, i.e. the lessees recognise and measure the corresponding "right-of-use" asset and lease liability at the commencement date (the date when the underlying asset is available for use by lessees) of the lease by discounting the total future lease payment.

Subsequently, the lessees recognise interest expense through the unwinding of the lease liability, and the expense on the depreciation of the right-of-use asset, instead of recognising as rental expenses under operating leases before the implementation of IFRS 16. As a practical expedient, the lessees can elect not to apply this accounting model to short-term leases not more than 12 months and leases of low value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

3. Significant accounting policies (continued)

There are no significant changes to the lessors' accounting requirements as compared with IAS 17. The requirements of IFRS 16 are summarised as follows:

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

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

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

The Branch has elected to use the modified retrospective approach and the practical expedient on short-term and low-value assets leases for the adoption of IFRS 16 and recognised the cumulative effect of the initial application by initially recognising the opening balances of the right-of-use assets and lease liabilities at 1 January 2019 with no restatement of the comparative information. The initial application has affected lease contracts that previously classified as operating leases.

The first time application of IFRS 16 resulted in the initial recognition of lease liabilities (recorded under "Other Liabilities" in the balance sheet) of BND$130 thousands and right-of use assets (recorded under "Property and Equipment" in the balance sheet) of BND$130 thousands respectively due to the lease of properties. The difference between lease liabilities and right-of-use assets is related to the adjustment arising from prepaid or unrecognised finance charge as at the initial adoption date. Initial direct costs were not included in the opening adjustment of right-of-use assets as permitted by the transition requirements of the standard.

3. Significant accounting policies (continued)

	BS'000
Operating lease commitments as at 31 December 2018	270
Less : commitments relating to short-term leases	(136)
	134
Weighted average incremental borrowing rates as at 1 January 2019	2.41%
Lease liabilities as at 1 January 2019	130

3.1 Property and equipment

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

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

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

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

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

3. Significant accounting policies (continued)

3.1 Property and equipment (continued)

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

3.2 Foreign currency transactions

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 profit or loss statement.

3.3 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 are 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. Significant accounting policies (continued)

3.4 Financial Instruments

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

Financial Assets

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

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

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

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

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

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

(ii) Financial assets at amortised cost

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

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

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

Financial Liabilities

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

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

(v) Financial liabilities held at amortised cost

Financial liabilities are classified as amortised cost instruments.

3. Significant accounting policies (continued)

3.4 Financial Instruments (continued)

Recognition and derecognition of Financial Instruments

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

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

3.5 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.

3. Significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

The Branch will account for expected credit losses within the next 12 months as Stage 1 when those financial instruments are initially recognised; and to recognise lifetime expected credit losses as Stage 2 when there has been significant increases in credit risk since initial recognition. Lifetime expected credit losses 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.

3. Significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

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 as an impairment gain or loss in profit or loss.

The Branch recognises an impairment gain or 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 income statement.

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

3.6 Current and deferred income taxes

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

Income tax payable on profits, based on the applicable tax law enacted or 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.

3. Significant accounting policies (continued)

3.6 Current and deferred income taxes (continued)

The principal temporary differences arise from depreciation of property and equipment 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 income statement.

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

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

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

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

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

3. Significant accounting policies (continued)

3.8 Provisions

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

3.9 Employee benefits

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

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

3.10 Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, balances placed with Autoriti Monetari Brunei Darussalam (excluding the minimum cash reserve), short-term bills and notes classified as investment securities and certificates of deposit.

3.11 Impairment of non-financial assets

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

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

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

3. Significant accounting policies (continued)

3.11 Impairment of non-financial assets (continued)

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

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

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

3.12 Lease

Before 1 January 2019

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

After 1 January 2019

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

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

3. Significant accounting policies (continued)

3.12 Lease (continued)

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

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

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

4. Cash And Short Term Funds

	2019 B$'000	2018 B$'000
Cash in hand	4,083	2,633
	4,083	**2,633**

5. Balances With Autoriti Monetari Brunei Darussalam

	2019 B$'000	2018 B$'000
Balances placed with AMBD	32,333	8,808
Minimum cash reserve	15,317	8,497
	47,650	**17,305**

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

6. Deposits With Banks And Other Financial Institutions

	2019 B$'000	2018 B$'000
At amortised cost	145	17
	145	**17**

7. Government Sukuk

	2019 B$'000	2018 B$'000
Debt Instrument at Fair Value through Other Comprehensive Income		
Government Sukuk held		
Original maturity less than one year	19,275	11,680
Less : Impairment allowances	(4)	-
	19,271	**11,680**

8. Group Balances Receivable

	2019 B$'000	2018 B$'000
Name of the company		
Bank of China (Hong Kong) Limited, Hong Kong	182,044	108,374
	182,044	**108,374**

The group balances receivable at the year-end are unsecured and interest bearing and repayable on demand.

9. Loans And Advances

	2019 B$'000	2018 B$'000
Loans and advances analysed by type:		
Term loans		
- Property loans	7,658	8,783
- Others	119,202	59,813
Trade bills	12,969	-
Gross Loan And Advances	**139,829**	**68,596**
Less : Impairment allowances made in respect of such advances		
- Stage 1 (Note 23)	(844)	(449)
Net Loan And Advances	**138,985**	**68,147**

10. Non-Performing Loans And Advances

	2019 B$'000	2018 B$'000
Loans and advances	-	-
Gross Amount	-	-
Less : Impairment allowances made in respect of such advances		
- Stage 1 to 3 (Note 23)	-	-
Net Amount	-	-

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

	2019	2018
Classified during the year		
Reclassified as performing	-	-
Write-offs	-	-
Balance as at 31 December	-	-

11. Other Assets

	2019 B$'000	2018 B$'000
Accrued Interest Receivable	209	289
Prepayments	103	86
Sundry Debtors	135	91
Less : Impairment Allowances	(1)	-
	446	**466**

12. Property and Equipment

	Right-of-use Assets	Renovation	Furniture, Fixtures & Equipment	Motor Vehicles	Total	Total
	2019	**2019**	**2019**	**2019**	**2019**	**2018**
	B$'000	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**
Cost/Valuation						
As at the beginning of the year	-	1,368	1,905	215	3,488	3,418
Initial adoption of IFRS 16	130	-	-	-	130	-
Additions during the year	691	167	125	-	983	70
Modification of lease	(130)	-	-	-	(130)	-
As at end of the year	**691**	**1,535**	**2,030**	**215**	**4,471**	**3,488**
Accumulated depreciation and impairment						
As at the beginning of the year	-	(323)	(607)	(48)	(978)	(336)
Depreciation charge for the year	(149)	(228)	(388)	(43)	(808)	(642)
Modification of lease	37	-	-	-	37	-
As at end of the year	**(112)**	**(551)**	**(995)**	**(91)**	**(1,749)**	**(978)**
Net Book Value as at end of the year	**579**	**984**	**1,035**	**124**	**2,722**	**2,510**

Right-of-use Assets

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

13. Deposits from Customers

	2019	2018
	B$'000	**B$'000**
Analysed by type of deposit:		
Demand deposits	14,264	21,429
Savings deposits	66,027	84,786
Fixed deposits	93,764	3,198
	174,055	**109,413**
Analysed by type of customer:		
Business enterprises	157,446	95,623
Individuals	7,527	13,790
Central Government	9,082	-
	174,055	**109,413**

14. Group Balances Payable

	2019 B$'000	2018 B$'000
Name of the company		
Bank of China (Hong Kong) Limited, Hong Kong	107,207	42,404
	107,207	**42,404**

The group balances payable at the year-end are interest bearing and repayable on demand.

15. Other Liabilities

	2019 B$'000	2018 B$'000
Creditors and accruals	1,012	1,081
Other	54,651	1,311
Lease Liabilities	623	-
Impairment allowances on loan commitments and financial guarantee contracts:		
- Stage 1	21	3
	56,307	**2,395**

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

	2019 B$'000
Lease Liabilities	
Initial adoption of IFRS 16	130
Additions	641
Accretion of Interest	10
Dismantling Provision	50
Modifications	(93)
Payments	(115)
As at 31 December	**623**
Current	203
Non-current	420
	623

The total cash outflow for leases is B$ 457 thousands.

16. Taxation

	01.01.2019 to 31.12.2019 B$'000	01.01.2018 to 31.12.2018 B$'000
a. The tax charge recognised in the profit or loss comprises of the following:		
Current tax expense		
Current year	-	-
Deferred tax	187	65
	187	65
b. Provision for Taxation:		
Balance as at 1 January	-	-
Payment	-	-
Current year tax expense	-	-
Balance as at 31 December	-	-

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

	2019 B$'000	2018 B$'000
Reconciliation of effective tax rate		
Profit before income tax	817	497
Tax calculated at a tax rate of 18.5%	151	92
Tax effect of non-taxable expenses (net of non-deductible revenue)	21	9
Tax effect of further deduction	(10)	(8)
Origination and reversal of temporary difference	(349)	(158)
Total	(187)	(65)

Deferred tax assets/(liabilities)	**Impairment Allowances** B$'000	**Accelerated depreciation for tax purposes** B$'000	**Losses available for offsetting against future taxable income** B$'000	**Total** B$'000
As at 1 January 2019	55	(195)	250	110
Credited to income statement	77	(64)	174	187
As at 31 December 2019	**132**	**(259)**	**424**	**297**

17. Commitments and Contingencies

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

	2019 BS'000	2018 BS'000
Contingencies		
Letters of credit	2,163	-
Guarantees, bonds	14	13,698
Acceptances	606	-
Subtotal	**2,783**	**13,698**
Commitments		
Undrawn credit lines	10,304	8,425
Subtotal	**10,304**	**8,425**
Total Contingencies and Commitments	**13,087**	**22,123**

18. Net Interest Income and Interest Expense

	01.01.2019 to 31.12.2019 BS'000	01.01.2018 to 31.12.2018 BS'000
Interest Income		
Group balances receivable	1,921	1,752
Loans and advances to customers	4,534	2,307
Government Sukuk	281	77
Total Interest Income	**6,736**	**4,136**
Interest Expense		
Deposits from customers	358	148
Group balances payable	1,404	424
Total Interest Expense	**1,762**	**572**
Net Interest Income	**4,974**	**3,564**

19. Net Fee Commission and Income

	01.01.2019 to 31.12.2019 B$'000	01.01.2018 to 31.12.2018 B$'000
Account services	412	338
Loan commissions	104	152
Currency exchange	4	79
Payment services	163	42
Others	113	12
Fee and commission income	**796**	**623**
Fee and commission expense	**(30)**	**(12)**
Net fee and commission income	**766**	**611**

20. Other Operating Income

	01.01.2019 to 31.12.2019 B$'000	01.01.2018 to 31.12.2018 B$'000
Gain on foreign currency exchange	1,223	1,652
	1,223	**1,652**

21. Staff Costs

	01.01.2019 to 31.12.2019 B$'000	01.01.2018 to 31.12.2018 B$'000
Wages and salaries	2,029	1,516
Allowance and bonuses	895	1,377
Local Contribution Plan	82	66
Others	3	26
	3,009	**2,985**

22. Other Expenses

	01.01.2019 to 31.12.2019 B$'000	01.01.2018 to 31.12.2018 B$'000
Administration and general expenses	456	311
Advertising and publicity	201	217
Auditor's fees	41	42
Depreciation	659	642
Depreciation on right-of-use assets	149	-
Interest expense on lease liabilities	10	-
EDP expenses	531	562
Others	257	200
Premises and equipment expenses	40	66
Rental expenses	-	171
Expenses relating to short-term leases	301	-
Professional fees	74	78
	2,719	2,289

23. Net Charge of Impairment Allowances on Advances and Other Accounts

	01.01.2019 to 31.12.2019 B$'000	01.01.2018 to 31.12.2018 B$'000
Stage 1	(418)	(56)
Stage 2	-	-
Stage 3	-	-
Net charge of impairment allowances on advances and other accounts	**(418)**	**(56)**

Movement in Impairment Allowances

	2019 B$'000 Stage 1	2019 B$'000 Stage 2	2019 B$'000 Stage 3	2019 B$'000 Total
At 1 January	452	-	-	452
Transfer to Stage 1	418	-	-	418
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
	870	-	-	**870**

23. Net Charge of Impairment Allowances on Advances and Other Accounts (continued)

Movement in Impairment Allowances

	2018 B$'000 Stage 1	2018 B$'000 Stage 2	2018 B$'000 Stage 3	2018 B$'000 Total
At 1 January	396	-	-	396
Transfer to Stage 1	56	-	-	56
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
	452	-	-	**452**

	2019 B$'000 Balance as at 1 January	2019 B$'000 Stage 1	2019 B$'000 Stage 2	2019 B$'000 Stage 3	2019 B$'000 Balance as at 31 December
Loans And Advances To Customers	449	395	-	-	844
Government Sukuk	-	4	-	-	4
Other Assets	-	1	-	-	1
Financial Guarantees	2	(1)	-	-	1
Other Commitments	1	19	-	-	20
	452	**418**	-	-	**870**

	2018 B$'000 Balance as at 1 January	2018 B$'000 Stage 1	2018 B$'000 Stage 2	2018 B$'000 Stage 3	2018 B$'000 Balance as at 31 December
Loans And Advances To Customers	389	60	-	-	449
Other Assets	3	(3)	-	-	-
Financial Guarantees	1	1	-	-	2
Other Commitments	3	(2)	-	-	1
	396	**56**	-	-	**452**

24. 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 2019	Carrying Amount			
	Amortised Cost	Fair Value through Other Comprehensive Income	Financial Liabilities at Amortised Cost	Total
	BS'000	BS'000	BS'000	BS'000
Assets				
Cash and short term funds	4,083	-	-	4,083
Balances with Autoriti Monetari Brunei Darussalam	47,650	-	-	47,650
Deposits with banks and other financial institutions	145	-	-	145
Government Sukuk	-	19,271	-	19,271
Group balances receivables	182,044	-	-	182,044
Loans and advances to customers	138,985	-	-	138,985
Other assets (excluding prepayments)	344	-	-	344
	373,251	**19,271**	**-**	**392,522**
Liabilities				
Deposits from customers	-	-	174,055	174,055
Group balances payable	-	-	107,207	107,207
Other liabilities	-	-	56,307	56,307
	-		**337,569**	**337,569**

As at 31 December 2018	Carrying Amount			
	Amortised Cost	Fair Value through Other Comprehensive Income	Financial Liabilities at Amortised Cost	Total
	BS'000	BS'000	BS'000	BS'000
Assets				
Cash and short term funds	2,633	-	-	2,633
Balances with Autoriti Monetari Brunei Darussalam	17,305	-	-	17,305
Deposits with banks and other financial institutions	17	-	-	17
Government Sukuk	-	11,680	-	11,680
Group balances receivables	108,374	-	-	108,374
Loans and advances to customers	68,147	-	-	68,147
Other assets (excluding prepayments)	380	-	-	380
	196,856	**11,680**	**-**	**208,536**
Liabilities				
Deposits from customers	-	-	109,413	109,413
Group balances payable	-	-	42,404	42,404
Other liabilities	-	-	2,395	2,395
	-		**154,212**	**154,212**

24. Accounting Classification and Fair Values (continued)

Determination of fair value

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

Loans and advances

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

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

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

Government Sukuk

The carrying value of the Government Sukuk approximate its fair value because of the short periods to maturity.

Deposits by customers

Deposit by customer is 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 by customers approximate fair values.

24. Accounting Classification and Fair Values (continued)

Other financial assets and liabilities

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

25. Operating leases

For the previous financial years, the Branch leased premises as its principal place of business, operations and staff accommodation under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

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

	2019 B$'000	2018 B$'000
Gross Operating Lease Payable:		
Within one year	-	189
Later than one year and less than five years	-	81
	-	270

26. 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.

26. Related Party Transactions (continued)

Key Management Personnel Compensation

	2019 B$'000	2018 B$'000
Short term employee benefits	617	767
Post employment benefits	-	-
	617	767

	2019 B$'000 KMP	2019 B$'000 Close Relatives	2019 B$'000 Other Related Entities
Income Statement			
Income			
Interest income	-	-	-
Other income	-	-	-
Total	-	-	-
Expense			
Interest expense	-	-	-
Other expenses	-	-	-
Total	-	-	-
Balance Sheet			
Assets			
Loans and advances	-	-	-
Credit cards			
Other assets			
Total	-	-	-
Liabilities			
Deposits	663	-	-
Total	663	-	-
Off Balance Sheet items			
Other commitments and contingencies	-	-	-
Total	-	-	-

26. Related Party Transactions (continued)

a. Balance Sheet

	2019 B$'000	2018 B$'000
Group balances receivable	182,044	108,374
Total Assets	**182,044**	**108,374**
Group balances payable	(107,207)	(42,404)
Total Liabilities	**(107,207)**	**(42,404)**
Other commitments and contingencies	-	-
Other liabilities	-	-
Total Off Balance Sheet Items	-	-
Total	**74,837**	**65,970**

b. Income Statement

	2019 B$'000	2018 B$'000
Interest income	1,921	1,752
Total Income	**1,921**	**1,752**
Interest expense	1,404	424
Total Expenses	**1,404**	**424**

Terms and conditions of transactions with related parties

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

The other liabilities from related parties as at year end are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are charged with interest bearing and repayable on demand.

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Branch has not recorded any impairment of receivables and payables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

27. Capital Management

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

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

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

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

The Branch has 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.

28. Financial Risk Management

Overview of risk management

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

28. Financial Risk Management (continued)

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

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

- Board of Directors: Being an overseas branch, the Branch does not have a dedicated Board of Directors. The Board of Directors for Bank of China (Hong Kong) Limited represents the interests of shareholders, and is the highest decision-making authority and has the ultimate responsibility for the oversight of risk management. The Board with the assistance of its committees which includes a Risk Committee has the primary responsibilities for the determination of risk management strategies, risk appetite and risk culture.
- Senior Management: The Branch's senior management is responsible in implementing these risk management strategies and ensuring development of policies and procedures for identifying, measuring, monitoring and controlling risk arising from new businesses, products and operating environment, or in response to regulatory changes.
- Business unit (front office): Act as the first line of defence of risk management and is responsible for soliciting business in compliance with the risk management policies and procedures and within various risk limits, and for assessing and monitoring the risk of their business, and ensuring risk data is correctly entered, kept current and aligned with the data definitions.
- Risk management unit (middle office): Independent from the business unit, and responsible for day-to-day management of different kinds of risks. 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 supports and recommendations for their decision-making.
- Supporting units (back office): 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: 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.

28. Financial Risk Management (continued)

(i) Credit risk

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

Branch manages credit risk exposures through a robust credit underwriting, structuring and monitoring process. The process includes monthly review of all non-performing and special mention loans, if any, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review and audit are performed regularly to proactively manage any delinquency, manage 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 lines and risk management units. Significant trends are reported to the Branch's management and Head Office.

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

The Branch also conducts stress test on an individual borrower level during credit assessment to consider potential future changes in economic conditions.

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

28. Financial Risk Management (continued)

(i) Credit risk (continued)

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

Maximum Exposure for the period ended 31 December

	2019	2018
	BS'000	BS'000
Credit Exposure for On-Statement of Financial Position		
Financial Assets		
Cash and short term funds	4,083	2,633
Balances with Autoriti Monetari Brunei Darussalam	47,650	17,305
Deposits with banks and other financial institutions	145	17
Government Sukuk	19,271	11,680
Group balances receivable	182,044	108,374
Loans and advances to customers	139,829	68,596
Other assets	343	380
Credit Exposure For Off-Statement of Financial Position		
Financial Assets		
Letters of credit	2,163	-
Guarantees, bonds	14	13,698
Acceptances	606	-
Undrawn credit lines	10,304	8,425
Total maximum credit exposures	406,452	231,108

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

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically and covers 100% of a credit risk associated with the respective financial asset. The main type of collateral taken by the Branch is residential and commercial properties. Policies and processes are in place to monitor collateral concentration.

28. Financial Risk Management (continued)

(i) Credit risk (continued)

Collateral

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

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

Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Regular valuation of collateral is required in accordance with the Branch's credit risk policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposures.

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

	2019 B$'000	2018 B$'000
Gross bills receivable, loans and advances to customers	139,829	68,596
Other contingencies and commitments	13,087	22,123
Less: financial effect of collateral held		
- Cash	1,446	1,068
- Other physical collateral	103	373
- Properties	13,554	12,568
- Guarantees	14	13,638
Net exposure from loans and advances to customers and off statement of financial positions items	**137,799**	**63,072**

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

28. Financial Risk Management (continued)

(i) Credit risk (continued)

Past Due

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

Past Due but not impaired loans and advances

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

Impaired loans and advances

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

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

The impairment allowances were made after taking into account the value of collateral in respect of such advances.

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

The Branch's adopts the loans grading criteria which divide credit assets into five categories as below:

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

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

28. Financial Risk Management (continued)

(i) Credit risk (continued)

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

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

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

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

	2019			
	Pass	**Special Mention**	**Substandard or Below**	**Total**
	B$'000	**B$'000**	**B$'000**	**B$'000**
Loans & advances to customers				
Corporate				
- Commercial loans - Stage 1	139,829	-	-	139,829
Less: Impairment Allowances	(844)			(844)
	138,985	-	-	**138,985**

	2018			
	Pass	**Special Mention**	**Substandard or Below**	**Total**
	B$'000	**B$'000**	**B$'000**	**B$'000**
Loans & advances to customers				
Corporate				
- Commercial loans	68,596	-	-	68,596
Less: Collective Impairment	(449)			(449)
	68,147	-	-	**68,147**

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

28. Financial Risk Management (continued)

(i) Credit risk (continued)

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

	2019		
	Unrated	Rated	Total
	B$'000	B$'000	B$'000
Cash and short term funds	4,083	-	4,083
Balances with Autoriti Monetari Brunei Darussalam	47,650	-	47,650
Deposits with banks and other financial institutions	-	145	145
Government Sukuk	19,271	-	19,271
Group balances receivable	-	182,044	182,044
Other assets	343	-	343
	71,347	182,189	253,536

			2018
	Unrated	Rated	Total
	B$'000	B$'000	B$'000
Cash and short term funds	2,633	-	2,633
Balances with Autoriti Monetari Brunei Darussalam	17,305	-	17,305
Deposits with banks and other financial institutions	17	-	17
Government Sukuk	11,680	-	11,680
Group balances receivable	-	108,374	108,374
Other assets	380	-	380
	32,015	108,374	140,389

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.

	2019	2018
	B$'000	B$'000
Loans & advances to customers		
Manufacturing	63,661	37,188
Traders	15,985	6,896
Services	8,721	2,301
Financial	21,061	-
Residential & Commercial property	30,401	22,211
	139,829	68,596
Less : Impairment allowances made in respect of such advances		
- Stage 1	(844)	(449)
	138,985	68,147

28. Financial Risk Management (continued)

(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, senior management and functional departments/units perform their duties and responsibilities to manage the market risk. The Risk Management 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.

The Branch manages market risk according to the Bank's 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.

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

	2019	2018
	B$'000	B$'000
Net Foreign Currency Exposure:	Assets/(Liabilities)	Assets/(Liabilities)
Chinese Yuan	14	9
Euro	4	-
Hong Kong Dollar	232	1,490
United States Dollar	269	255
	519	1,754

28. Financial Risk Management (continued)

(iii) Foreign exchange risk (continued)

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

	2019	2018
	B$'000	B$'000
10% Strengthening	**Profit/(Loss)**	**Profit/(Loss)**
Chinese Yuan	1.4	0.9
Euro	0.4	-
Hong Kong Dollar	23.2	149.0
United States Dollar	26.9	25.5
	51.9	175.4

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

(iv) Interest rate risk

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

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

- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;

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

- 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.

28. Financial Risk Management (continued)

(iv) Interest rate risk (continued)

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

The 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 Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO"), ALCO, RC 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	
	2019	2018	2019	2018
	BND$'M	BND$'M	BND$'M	BND$'M
Total	0.52	0.48	- 0.11	- 0.02

28. Financial Risk Management (continued)

(v) Liquidity risk

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

The Branch's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Branch's primary source of funds. To ensure stable and sufficient source of funds are in place, the Branch actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Branch adjusts its asset structure (including loans, interbank placement, etc.) to maintain sufficient liquid assets which 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 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 2019

	Carrying Amount	Up to 1 month	1-3 months	3-12 months	1-3 years	More than 3 years	No specific maturity	Total
	B$'000	B$'000	B$'000	B$'000	B$'000	B$'000	B$'000	B$'000
Liabilities								
Deposits from customers	174,055	93,290	44	81,627	-	-	-	174,961
Group balances payable	107,207	107,371	-	-	-	-	-	107,371
Other liabilities	55,684	54,651	97	877	-	38	-	55,663
Lease Liabilities	623	20	39	155	380	17	-	611
Taxation	-	-	-	-	-	-	-	-
	337,569	255,332	180	82,659	380	55	-	338,606

As at 31 December 2018

	Carrying Amount	Up to 1 month	1-3 months	3-12 months	1-3 years	More than 3 years	No specific maturity	Total
	B$'000	B$'000	B$'000	B$'000	B$'000	B$'000	B$'000	B$'000
Liabilities								
Deposits from customers	109,413	109,345	43	25	-	-	-	109,413
Group balances payable	42,404	42,404	-	-	-	-	-	42,404
Other liabilities	2,395	1,568	809	18	-	-	-	2,395
Taxation	-	-	-	-	-	-	-	-
	154,212	153,317	852	43	-	-	-	154,212

29. Current and Non-Current Assets and Liabilities

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

	Current BS'000	Non Current BS'000	Total BS'000
Assets			
Cash and short term funds	4,083	-	4,083
Balances with Autoriti Monetari Brunei Darussalam	47,650	-	47,650
Deposits with banks and other financial institutions	145	-	145
Government Sukuk	19,271	-	19,271
Group balances receivable	182,044	-	182,044
Loans and advances to customers	44,168	94,817	138,985
Other assets	446	-	446
Property and equipment	-	2,722	2,722
Deferred tax assets	-	297	297
	297,807	**97,836**	**395,643**
Liabilities and Head Office Account			
Deposits from customers	174,055	-	174,055
Group balances payable	107,207	-	107,207
Other liabilities	55,829	478	56,307
Taxation	-	-	-
Head Office Account	-	58,074	58,074
	337,091	**58,552**	**395,643**

As at 31 December 2018

	Current BS'000	Non Current BS'000	Total BS'000
Assets			
Cash and short term funds	2,633	-	2,633
Balances with Autoriti Monetari Brunei Darussalam	17,305	-	17,305
Deposits with banks and other financial institutions	17	-	17
Government Sukuk	11,680	-	11,680
Group balances receivable	108,374	-	108,374
Loans and advances to customers	8,658	59,489	68,147
Other assets	386	80	466
Property and equipment	-	2,510	2,510
Deferred tax assets	-	110	110
	149,053	**62,189**	**211,242**
Liabilities and Head Office Account			
Deposits from customers	109,413	-	109,413
Group balances payable	42,404	-	42,404
Other liabilities	2,395	-	2,395
Taxation	-	-	-
Head Office Account	-	57,030	57,030
	154,212	**57,030**	**211,242**

30. Events after the balance sheet date.

The outbreak of COVID-2019 since early 2020 has been impacting the economy. The Branch will closely monitor the developments and continue to evaluate its impacts on the Branch's operations and financial status. The impact on macroeconomic factors and the downward pressure on the economy will be considered in estimating the ECL in 2020.

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

A copy of Bank of China (Hong Kong) Limited's ("BOCHK") Corporate Governance Policy can be found at the following website link :

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

A copy of the Corporate Governance Policy of BOC Hong Kong (Holdings) Limited ("BOCHK (Holdings)") can be found at the following website link:

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

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

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

Corporate Governance Framework at BOCHK Brunei Branch

In line with BOCHK, BOCHK Brunei Branch ("the Branch") is committed to maintaining and upholding high standards of corporate governance in order to safeguard the interests of shareholders, customers and employees. The Board 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 BOCHK Board of Directors oversees the Group which includes the Branch. The Board of Directors of BOCHK is responsible for providing high-level guidance and effective oversight of the Management. The Board authorizes the Management (Chief Executive ("CE") or the Management Committee ("MC") chaired by CE and other decision making committees designated by CE or MC) to implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group including overseas branches and reports to the Board. For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances when the Management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Roles of the Chairman and the Chief Executive

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

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

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

Corporate Governance Policy

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

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

1. While the Brunei Guidelines require that the number of executive directors on the Board be kept to the very minimum and there should not be more than one executive director sitting on the Board, BOCHK is adhering to the corporate governance regulations and practice in Hong Kong which allows BOCHK to appoint the number of executive director(s) as it deems appropriate, which is currently one.

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. BOCHK is not required to appoint such a lead independent director based on the corporate governance regulations and practice in Hong Kong, but the independent directors shall hold meetings with the Chairman at least annually without the presence of the other directors.

3. While the Brunei Guidelines require that a director should not have more than 3 Board representations, BOCHK is adhering to the Hong Kong's regulations that the Board would only disclose why it believes a proposed independent non-executive director would still be able to devote sufficient time to the Board if the individual will be holding his/her seventh (or more) listed company directorship. Currently there is no director who holds more than 3 listed company directorships on the Board other than BOCHK (Holdings).

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 Board meeting is three directors. This is in line with market practice in Hong Kong to maintain flexibility while the high attendance record and active participation has been consistently maintained by the directors of BOCHK and disclosed.

5. While the Brunei Guidelines require that Banks should have a policy on payment of dividends and should communicate it to shareholders, BOCHK (Holdings) will disclose its dividend policy in 2019 Annual Report to be published in 2020 pursuant to the new requirement of the Listing Rules.

6. While the Brunei Guidelines require that the nomination committee ("NC") determines annually, and as and when circumstances require, if a director is independent, BOCHK's NC annually assesses the independence of Independent Non-Executive Directors who retire and offer themselves for re-election at the annual general meeting in accordance with the Articles of Association.

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. There is currently no external facilitator engaged.

8. While 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, comment on the internal control and risk management systems has been disclosed in the Corporate Governance Report of BOCHK (Holdings) without such specific comment on assurance received from CEO and CFO.

Risk Management & Internal controls

Refer to Appendix 2 attached to the Annual Report for further details

Internal Audit

Refer to Appendix 2 attached to the Annual Report for further details

Compliance

Refer to Appendix 2 attached to the Annual Report for further details

AMBD Notice No. BU/N-1/2018/51- Amendment No.1 – Disclosure on Risk Management, Credit Risk Management, Internal Audit Function, Compliance and Compliance Function and Internal Control Systems

Risk Management Framework and Internal Control Systems

In line with Bank of China (Hong Kong) Limited ("BOCHK"), BOCHK Brunei Branch ("the Branch") is committed to maintaining and upholding high standards of corporate governance in order to safeguard the interests of shareholders, customers and employees. The Board 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 as BOCHK Board of Directors oversees the Group[1] which includes the Branch. BOCHK's risk management framework and internal control systems are applicable to and adopted by the Branch. The Board of Directors for BOCHK is responsible for providing high-level guidance and effective oversight of the Management. The Board authorizes and discharges their oversight responsibilities to the Management (Chief Executive ("CE") or the Management Committee ("MC") chaired by CE and other decision making committees designated by CE or MC) to implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group including overseas branches and reports to the Board. For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances when the Management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

The Group's risk management governance structure is designed to cover all business processes and ensures various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its Committees, has the primary responsibility for the formulation of risk management strategies and ensuring that the Group has an effective risk management system to implement these strategies.

The Risk Management Committee ("RMC"), a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, approving risk management policies and monitoring their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should

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not proceed. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Deputy Chief Executives ("DCEs") and the Chief Risk Officer ("CRO") as part of the Senior Management team assist the CE in fulfilling his responsibilities on the day-to-day management of various types of risk, and are responsible for approving material risk exposures or transactions within their authorities delegated by the CE. In addition, the CRO is responsible for initiating new risk management strategies, projects and measures in response to regulatory changes that will enable the Group to better monitor and manage any risks that may arise from time to time from new businesses, products and changes in the operating environment. In accordance with the principle of setting the hierarchy of risk management policies approved by the Board, Senior Management are also responsible for approving the detailed risk management policies of their responsible areas.

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 Risk Officer). 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 Risk Management Framework and internal control systems of the Branch are implemented and monitored via this governance structure.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risk. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The Group supplements the analysis of various types of risks with stress testing. Stress testing is a risk management tool for estimating risk exposures under stressed conditions arising from extreme but plausible market or macroeconomic movements. These tests are conducted on a regular basis by the Group's various risk management units. The Asset & Liability Committee ("ALCO") monitors the results against the key risk limits approved by the RMC. The Financial Management department reports the combined stress test results of the Group to the Board and RMC regularly.

The Group is committed to upholding good corporate governance practices and the internal control systems are reviewed regularly.

Continuous improvements on the organisation structure, segregation of duty and the risk management policy and procedure have been undertaken. Similar to 2018, the Branch is implementing the disclosure transparency requirements by Autoriti Monetari Brunei Darussalam ("AMBD") as part of the Branch's Annual Report to the financial statements for the operations in Brunei Darussalam for the year ended 31st December 2019.

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Credit Risk Management

Please refer to Annual Report Notes 28 for details.

Internal Audit Function

Based on the latest regulatory requirements, guidelines as well as market practices, the Board at BOCHK has established four standing Board Committees to assist in performing its responsibilities, namely the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, and the Strategy and Budget Committee. The Audit Committee oversees the Group's internal audit ("IA") function and is responsible for :

- integrity of financial statements and financial reporting process
- monitoring of risk management and internal control systems
- effectiveness of internal audit function and performance appraisal of the General Manager of BOCHK Group Audit ("Group Audit")
- appointment of external auditor and assessment of its qualification, independence and performance and, with authorisation of the Board and shareholders at general meeting, determination of its remuneration
- periodic review and annual audit of the Bank's and the Group's financial statements, financial and business review
- compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures
- corporate governance framework of the Group and implementation thereof

Local internal audit function of the Branch has been established since November 2019, with dual reporting lines to Branch Manager administratively and Group Audit functionally. The local IA team currently has one audit specialist who carries out risk information reporting and ensures audit reviews are timely performed to address major risks effectively. With the direct management approach adopted by Group Audit, the local IA team forms an integral part of Group Audit and is being supported by Group Audit which consists of high calibre professional staff with wide range of expertise that is essential to the effectiveness of the bank's internal audit function.

The Internal Audit Charter of Group Audit articulates the mission, purpose, responsibility and scope of work, accountability, independence and objectivity, authority, strategic and annual audit plan, relationship with other control functions, professional standards, quality assurance and improvement programme, and service standards of the internal audit function within the bank in a manner that promotes an effective internal audit function.

Through the three lines of defence governance structure, Group Audit under Audit Committee endeavours to provide risk-based, independent and objective assurance with a systematic and disciplined approach to assist the Board or its designated Audit Committee and the Management in the discharge of their responsibilities by ensuring all major risks are under good oversight, as well as the risk management systems regarding tactics, policies, procedures and internal controls are well implemented and promoted continuously.

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Pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, Group Audit conducts independent reviews on such aspects as financial activities, various business areas, various kinds of risks (8 major banking risks within the bank - Credit, Market, Operational, Legal and Compliance, Interest Rate, Liquidity, Strategic and Reputation), operations and activities. The scope of the internal audit function's activities will ensure adequate coverage including matters of local legal and regulatory provisions within the Audit plan. Reports are submitted directly to the Audit Committee and the Management. Group Audit closely follows up on the items that require attention in a systematic way and reports to the Management and the Audit Committee in a timely manner.

In accordance with the Internal Audit Charter, Group Audit shall maintain a quality assurance programme. Group Audit has a delegated quality assurance team for the general audit quality management work of the Department. In addition, every 3 to 5 years, an external consultant will be appointed to perform independent assessment of the internal audit function.

Compliance and Compliance Function

Compliance risk is the risk of legal or regulatory sanctions, financial losses or losses in reputation the Group[1] may suffer as a result of its failure to comply with applicable laws and regulations. Major functions of Compliance risk management aims at improving the overall prevention and control capability of the bank so as to ensure that the bank effectively complies with the regulatory requirements, preventing the punishment on and loss against, or negative impact on the bank due to the failure of rapid response to the changes of external regulatory environment, internal environment and compliance requirements.

The Board of Directors has the ultimate responsibility for the Group's operation and financial fitness, including legal, compliance and reputation risk management. The Board of Directors or its Risk Management Committee is also responsible for the overall supervision of the Group's legal, compliance and reputation risk management.

As documented in the Board Manual on "Matters for the approval of the Board and Matters to be noted by the Board", the Board reviews and assesses annually the effectiveness of the Group's risk management and internal control system. It would cover important monitoring aspects including compliance controls.

The Board approves the Group's high level risk management policies such as the "Legal, Compliance and Reputational Risk Management Policy" which is applicable to the Compliance Function at the Branch. The Group including the Branch should strictly follow this Policy with full commitment to implementing the values of honesty and integrity, and require managers and employees at all levels to comply with this Policy and ensure that all business activities and operations are conducted in accordance with laws and regulations in order to uphold the Group's reputation. Key members of the Group, including overseas subsidiary banks and branches must follow the risk management strategies and principles set out in this Policy.

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BOCHK Senior Management and the Branch Senior Management have direct responsibility on legal, compliance and reputation risk management. BOCHK Senior Management has the following duties:

- To establish and implement relevant risk management policies;
- To assess and determine the factors that give rise to the above risks; establish and timely adjust the corresponding risk management mechanism, methods and procedures; and to manage the legal, compliance and reputation risks inherent in the Group' s business operations;
- To approve contingency plans or crisis management plans to deal with any risk events that have occurred or will potentially occur, and oversee the implementation of remedial measures to mitigate the adverse effect;
- To ensure that the Group has effective and sufficient resources to support all units and staff in implementing this management policy, and supervise Legal, Compliance and Operational Risk ("LCO") or relevant functional units in their performance of risk management.
- To report any significant risk events to the Board of Directors or its authorized committee; regularly report the Group's overall risk evaluation results to the Board of Directors or its authorized committee , and seek advice or approval when necessary; and
- To foster the Group's risk management culture and promote risk awareness across the board.
- To earnestly perform its own compliance duties, set the right tone of compliance and lead by personal example, transmit the correct compliance risk management principles from top to bottom, and form a good compliance culture.

In order to ensure that each unit in the Group manages and supervises their legal, compliance and reputation risks effectively, the "Three Lines of Defence" management model is adopted and implemented across the Group.

The Branch First Line of Defence for Legal and Compliance Risk Management

In accordance with the Group's LCO policy, the Branch is the first line of defence and responsible for legal, compliance and reputation risks within its purview. The Branch's GM/CRO should bear the ultimate responsibilities of their respective legal and compliance risk management and the Branch's GM is the primary responsible person of the Branch and is responsible for the management of the Branch's legal and compliance risk.

BOCHK Second Line of Defence for Legal and Compliance Risk Management

As the designated unit for legal and compliance risk management, LCO of BOCHK is responsible for regulatory compliance; coordinating, managing, supporting, monitoring and following up on legal and compliance risk management of the bank, including the Branch. The Branch's LCO have dual reporting lines to both the Branch's GM/CRO and the corresponding BOCHK's LCO team. As a second line of defense, BOCHK's LCO will perform on-site/off-site review periodically in order to ensure the Branch has complied with the Group's requirement as well as the related regulations issued by HKMA.

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Three Lines of Defence mechanism of the Branch

The Branch has a developed "three lines of defence" mechanism and a comprehensive legal and compliance risk management organization structure and management system as its respective internal second line of defence. The Branch's LCO second line of defence should maintain its independency and professionalism, and independently implement legal and compliance risk monitoring, management and reporting.

The Branch's LCO is an independent unit providing risk management and legal services, works with relevant functional units and BOCHK's risk management units to perform the duty of the second line of defence. LCO is responsible for the coordination, support and supervision of all fist line of defence units and other second line of defence units in the legal, compliance and reputation risk management work. The Branch's LCO will also ensure that the Branch has effectively implemented appropriate procedures to manage the above risks, monitor each unit's status of implementing the procedures, supervise any corrective actions and deal with breaches, and report breaches and the progress of remedial measures to the BOCHK's LCO respective team. The Branch's LCO will conduct regular risk-based compliance testing and reviews so as to ensure that business and support units effectively execute relevant control measures in daily operations to achieve due compliance with applicable laws and regulations.

Annually, a Compliance Risk Assessment is being performed by the Branch and reported to BOCHK's LCO to assess the overall risk profile at the Branch including the improvement in mechanism for legal compliance risk management.

BOCHK Third Line of Defence for Legal and Compliance Risk Management

Group Audit is the third line of defence, which provides independent assessment on the legal, compliance and reputation risk management framework, and is required to conduct periodic audit, assess the effectiveness of the internal control systems and make audit recommendations.

Legal, Compliance and Operational Risk Management Policy and Measures and Reporting Mechanism

The Group has formulated Legal, Compliance and Operational Risk Management Policy ("The Policy") and the Administrative Measures for Legal and Compliance Risk Management ("The Measures") to effectively manage and control the legal and compliance risks of BOCHK. The Policy together with the Measures promote and cultivate a sound compliance culture so as to develop all employees to be self-conscious in operational compliance and jointly ensure that the implementation of basic requirements of relevant laws and regulations in all aspects.

The Branch should refer to the major principles and measures of the Policy and Measures, taking its own standards, structures, businesses, existing mechanisms and local legal and regulatory requirements into consideration, formulate relevant management measures (in addition to complying with the Measures, the Branch must also comply with the relevant local regulatory requirements. Whenever there are discrepancies, the more stringent one shall prevail in principle).

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The Branch's LCO team is required to submit regular risk management reporting to BOCHK's LCO which summarizes the legal and compliance risk management of the month. Moreover, the Branch's LCO should notify the material and extremely material legal and compliance risk incidents, which are defined under the Policy and Measures together with the handling and rectification status to BOCHK's LCO immediately.

BOCHK's LCO should analyze the specific incident circumstances. BOCHK's LCO should report to the Board of Directors, the Risk Committee and Senior Management and, if necessary, follow up on the handling and rectification progress of the relevant incident with the Branch to avoid the occurrence of similar incidents in the Branch. The Branch's LCO should organize the compliance review on a timely basis for any material and extremely material legal and compliance risk incidents. There is also a requirement to submit risk incident reporting to BOCHK's LCO as part of their oversight of the Branch's compliance risk.

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