

BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

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BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

**STATEMENT BY THE MANAGEMENT
31 DECEMBER 2022**

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Management of Bank of China (Hong Kong) Ltd. Vientiane Branch (the Branch) is responsible for ensuring that the financial statements, are prepared, in all material respects, the financial position of the Branch as at 31 December 2022 and of its financial performance, statement of changes in equity and its cash flows for the year then ended in accordance with accounting policies of the Branch and the relevant accounting regulations and notifications of Bank of the Lao People's Democratic Republic (BOL) described in Note 2 to the financial statements. In preparing these financial statements, the Management is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ii) comply in accordance with accounting policies of the Branch and the relevant accounting regulations and notifications of BOL described in Note 2 to the financial statements and ensure that these have been, appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Branch will continue operations for the foreseeable future; and
- v) effectively control and direct the Branch and be involved in all material decisions affecting the operations and performance of the Branch, and ascertain that such decisions have been properly reflected in the financial statements.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Branch and to ensure that the accounting records comply with the applied accounting system. It is also responsible for safeguarding the assets of the Branch and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management confirmed that it has complied with the above requirements in preparing the accompanying financial statements.

STATEMENT BY MANAGEMENT

Management does hereby state that, in its opinion, the accompanying financial statements are prepared, in all material respects, in accordance with accounting policies of the Branch and the relevant accounting regulations and notifications of BOL described in Note 2 to the financial statements.

For and on behalf of Management:




Mr. Li Zhiyong
General Manager

Vientiane Capital, Lao PDR

Date: 31 March 2023



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BANK OF CHINA (HONG KONG) LTD. VIENTIANE BRANCH

Opinion

In our opinion, the financial statements of Bank of China (Hong Kong) Ltd., Vientiane Branch (the Branch) for the year ended 31 December 2022 are prepared, in all material respects, in accordance with the relevant accounting regulations and notifications of Bank of the Lao People's Democratic Republic and accounting policies as described in Note 2 to the financial statements.

What we have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the income statement for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Branch in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of Matter - Basis of accounting and restriction on distribution and use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with accounting policies described in Note 2 to the financial statements. As a result, the financial statements may not be suitable for another purpose.

Our report is intended solely for the Branch and should not be distributed to or used by parties other than the Branch. Our opinion is not modified in respect of this matter.



Responsibilities of the Management for the financial statements

The management is responsible for the preparation of the financial statements in accordance with the relevant accounting regulations and notifications of Bank of Lao People's Democratic Republic and accounting policies described in Note 2 to the financial statements, and for such internal control as the directors determine 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, the 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.

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

We communicate with the management 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.

For PricewaterhouseCoopers (Lao) Sole Company Limited



By Apisit Thiengtrongpinyo
Partner

Vientiane Capital, Lao PDR
Date: 31 March 2023

BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

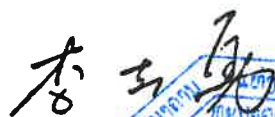
	Note(s)	2022 LAKm	2021 LAKm
Interest income		426,447	231,992
Interest expense		(135,708)	(44,078)
NET INTEREST INCOME	3	290,739	187,914
Fee and commission income		9,862	21,161
Fee and commission expense		(1,312)	(1,178)
NET FEES AND COMMISSION INCOME	4	8,550	19,983
Net gain from dealing in foreign currencies	5	368,120	116,835
NET OPERATING INCOME		667,409	324,732
Other operating income		125	40
Payroll and other staff costs	6	(47,695)	(31,164)
Other administration expenses	7	(14,140)	(15,563)
Depreciation and amortisation charges	16	(3,634)	(3,617)
Other operating expenses	8	(16,572)	(5,983)
TOTAL EXPENSES		(81,916)	(56,287)
Allowance for credit losses on loans	14	(34,500)	(43,803)
PROFIT BEFORE TAX		550,993	224,642
Income tax expense	9	(109,728)	(45,993)
NET PROFIT FOR THE YEAR		441,265	178,649

Prepared by:

Reviewed by:



Mr. Li Zhiwei
Financial Management and Operation
Service Unit Manager



Mr. Li Zhiyong
General Manager



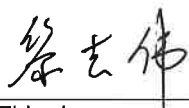
Vientiane Capital, Lao PDR

BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	31 December 2022 LAKm	31 December 2021 LAKm
ASSETS			
Cash and balances with central bank	10	4,987,988	2,922,807
Due from banks	11	402,400	163,012
Investment in securities	13	14,000	552,050
Loans to customers, net of allowance for credit losses	14	1,926,634	1,407,493
Loans to parent company	15	5,220,900	3,342,760
Property and equipment and rights-of-use assets	16	7,366	10,257
Other assets	17	74,846	61,328
TOTAL ASSETS		12,634,134	8,459,707
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	18	1,303,516	1,076,382
Due to customers	19	9,803,270	6,323,136
Other liabilities	20	144,320	118,426
TOTAL LIABILITIES		11,251,106	7,517,944
EQUITY			
Paid-up capital		405,100	405,100
Statutory reserve		97,808	54,037
Retained earnings		880,120	482,626
TOTAL EQUITY		1,383,028	941,763
TOTAL EQUITY AND LIABILITIES		12,634,134	8,459,707

Prepared by:



Mr. Li Zhiwei
Financial Management and Operation
Service Unit Manager

Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane Capital, Lao PDR

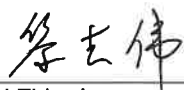
The accompanying notes on pages 8 to 24 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 2022**

	Paid-up capital LAKm	Statutory reserve LAKm	Retained earnings LAKm	Total LAKm
At 1 January 2021	405,100	36,173	321,841	763,114
Net profit for the year	-	-	178,649	178,649
Appropriate to reserve for the year	-	17,864	(17,864)	-
As at 31 December 2021	405,100	54,037	482,626	941,763
At 1 January 2022	405,100	54,037	482,626	941,763
Net profit for the year	-	-	441,265	441,265
Appropriate to reserve for the year	-	43,771	(43,771)	-
As at 31 December 2022	405,100	97,808	880,120	1,383,028

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Vientiane Capital, Lao PDR

Reviewed by:



Mr. Li Zhiyong
General Manager

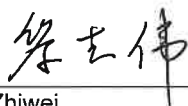
BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 LAKm	2021 LAKm
OPERATING ACTIVITIES			
Net profit before tax		550,993	224,642
<i>Adjustments for:</i>			
Depreciation and amortisation charges	16	3,635	3,617
Allowance for credit losses on loans	14	34,500	43,803
Foreign exchange gains arising from revaluation of monetary accounts denominated in foreign currencies		(332,251)	(105,332)
Interest income	3	(426,447)	(231,992)
Interest expense	3	135,708	44,078
<i>Working capital adjustments:</i>			
(Increase)/decrease in operating assets			
Due from banks and BOL		(2,183,169)	323,571
Loans to customers		(584,973)	(303,315)
Loans to parent company		(1,878,140)	(2,965,020)
Other assets		(26,841)	(13,329)
Increase/(decrease) in operating liabilities			
Due to banks		227,134	655,188
Due to customers		3,480,134	1,467,023
Other liabilities		48,051	16,501
Interest received		391,158	220,435
Interest paid		(116,039)	(29,661)
Profit tax paid during the year	9	(107,942)	(36,477)
Net cash flows generated from operating activities		(784,489)	(686,268)
INVESTING ACTIVITIES			
Payments to acquire property and equipment	16	(744)	(800)
Proceeds from maturity of securities investments		538,050	-
Net cash flows generated from/(used in) investing activities		537,306	(800)
Net change in cash and cash equivalents		(247,183)	(687,068)
Cash and cash equivalents at the beginning of the year		644,838	1,312,156
Effects of foreign exchange difference		368,583	19,750
Cash and cash equivalents at the end of the year	12	766,238	644,838

Prepared by:

Reviewed by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Vientiane Capital, Lao PDR



Mr. Li Zhiyong
General Manager

BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL INFORMATION

Bank of China (Hong Kong) Ltd., Vientiane Branch (the "Branch"), a branch of Bank of China (Hong Kong) Ltd., was established in Lao PDR and operates under Banking License No. 01/BOL granted by Bank of the Lao PDR ("the BOL") on 13 January 2020.

The principal activities of the Branch are to mobilise capital and provide loans for improving and strengthening the Lao economy.

The initial registered capital of the Branch is LAK 405,100,000,000. The actual paid-up capital as at 31 December 2022 is LAK LAK 405,100,000,000 (2021: LAK 405,100,000,000).

The Branch is located at Building Vientiane Center, Khouvieng Road, Ban Nongchanh, Sisattanak District, Vientiane Capital, Lao PDR.

Total employees of the Branch as at 31 December 2022 were 65 people (31 December 2021: 62 people)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared in accordance with the relevant accounting regulations and notifications of BOL and accounting policies of the Branch. The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are not intended to present the financial position and financial performance in accordance with other jurisdictions. Consequently, these financial statements are addressed only to those who are informed about the Branch's accounting policies and the relevant accounting regulations and notifications of BOL.

The preparation of financial statements requires management to make estimates and assumptions affecting the amounts reported as assets and liabilities, the disclosure of any contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses in the reported periods. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The financial statements have been prepared under the historical cost convention.

2.2 Measurement and presentation currency

The Branch maintains its records in Lao Kip (LAK) and presents financial statements in millions of LAK (LAKm).

2.3 Foreign currency transactions and translation

The Branch maintains its accounting system and records all transactions in original currencies. Income and expenses arising in foreign currencies during the year are converted into LAK at rates ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at year end are translated into LAK at exchange rates ruling on the statement of financial report date. Foreign exchange differences arising from the transaction of monetary assets and liabilities on the balance sheet date are recognised into the income statement.

2.4 Recognition of interest income and expense

Interest income and expense are recognised in the income statement on accrual basis using straight-line method and the interest rates stipulated in the loan/deposit contracts with customers.

As per BOL guideline no. 334/AD, dated 11 March 2019, where an account becomes non-performing, the recording of interest is suspended and interest income already recognised will be reversed. Interest income will be recognised if accrued interest on non-performing loans will be subsequently collected. Customer accounts are deemed to be non-performing where repayments are in arrears for more than three months or 89 days.

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.5 Recognition of fee and commission income

Fee and commission consist of fees received for fund transfer (including trade settlement), fee arising for foreign currency exchange transactions and fee arising from financial guarantees.

Fee and commissions are recognised into income statement on cash basis.

2.6 Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with an original maturity of less than 30 days that are readily convertible to known amount of cash and accounts due from banks with original maturity of less than 30 days.

2.7 Loans to customers

Loans and advances are originated by the Branch providing money to a customer for purposes other than short-term profit taking. They are stated at the outstanding principal balances less an impairment allowance for doubtful loans and advances. Loans and advances are shown inclusive of accrued interest receivable.

2.8 Provisions for credit losses

The Branch sent out a letter to the BOL with reference BOC/2020/161 dated 25 February 2020 requesting for permission to apply the provision for its loans to customers in accordance with is the IFRS 9 as stated in its credit manual.

The Branch has received a response letter from the BOL. In accordance with the Notification Letter no.152/ ກອທ (“BOL”) dated 01 April 2020 from the Commercial Bank Supervision Department of Bank of Lao P.D.R, the Branch is allowed to apply loan provision in accordance to IFRS 9 for its loans to customers.

Expected credit loss model ('ECL')

The Branch assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instruments carried at amortised cost. The Branch recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all contractual cash flows that are due to the Branch in accordance with the contract and all cash flows expected to be received by the Branch discounted at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Branch calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk since initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instruments for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the financial reporting date are included in Stage 3, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.8 Provisions for credit losses

Measurement

Where, in the previous accounting period, the impairment allowance of a financial instrument was measured based on the ECL of the instrument over the entire lifetime, and while, at the current financial reporting date, such financial instrument is no longer regarded as experiencing a significant increase in credit risk since its initial recognition, the Branch measures the impairment allowance of the financial instrument on the financial reporting date using the ECL of the instrument over the next 12 months.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Branch considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Branch conducted an assessment of ECL according to forward-looking information and used a number of models and assumptions in its measurement of expected credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Branch uses judgements, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for determining significant increases in credit risk
- Definition of default and credit-impaired financial assets
- Parameters for measuring ECL
- Forward-looking information
- Modification of contractual cash flows
- Grouping of financial instruments for losses measured on a collective basis

Criteria for determining significant increases in credit risk

The Branch assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each financial reporting date. While determining whether the credit risk has significantly increased since initial recognition or not, the Branch takes into account the reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis based on the historical data of the Branch, external credit risk rating, and forward-looking information. Based on an individual financial instrument or a group of financial instruments shared credit risk characteristics, the Branch compares the risk of default of financial instruments at the financial reporting date with that at the date of initial recognition in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Branch considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-category loan classification
- Be listed on the watch-list

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.8 Provisions for credit losses

Definition of default and credit-impaired financial asset

The Branch considers a financial instrument as default when it is credit-impaired. The standard adopted by the Branch to determine whether a financial asset is credit-impaired is consistent with the internal credit risk management objectives, taking into account quantitative and qualitative criteria. When the Branch assesses whether the credit impairment occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Branch granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor is more than 90 days overdue for any of the principal, advances, interest or investments in corporate bonds of the Branch.

A financial asset becoming credit-impaired may be caused by the combined effect of several events, but not a single discrete event. For credit-impaired financial assets, the Branch mainly evaluate the future cash flow (including the recoverable value of the collateral held) in different circumstances on an individual basis. Expected credit losses are measured as the differences between the present value of estimated cash flows discounted at the original effective interest rate and the asset's gross carrying amount. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Parameters of ECL measurement

According to whether the credit risk has significantly increased and whether the asset is credit-impaired, the Branch measures the impairment allowance for different assets with ECL of 12 months or the entire lifetime respectively. The key parameters in ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Branch takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the models for estimating PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime;
- LGD refers to the Branch's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies;
- EAD is the amount that the Branch should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime

**NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.8 Provisions for credit losses

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Based on the analysis of historical data, the Branch identifies the key macroeconomic indicators that affect the credit risk and ECL of various business types, such as GDP, Investment in fixed assets, PPI, Home price index, CPI.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Branch applied experts' judgement in this analysis, according to the result of experts' judgement, the Branch predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to a base economic scenario, the Branch conducts statistical analysis with experts' judgement to determine other possible scenarios and their weights. The Branch measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3).

The Branch conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

Grouping of financial instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The Branch uses credit rating, product types and client types, etc., for grouping the personal loans and advances to calculate the losses measured on a collective basis.

2.9 Held-to-maturity securities

Held-to-maturity investment securities are debt securities with fixed or determinable payments and maturities, which the Branch has intention and ability to hold to maturity to earn interest. When a significant part of the securities is sold before maturity date, the remaining balance will be reclassified as trading securities or available-for-sale securities.

Held-to-maturity securities are initially recognised at cost and subsequently presented at cost. Premiums and discounts arising from securities purchases are amortised in the income statement using the straight-line method over the year from the acquisition dates to the maturity dates.

Periodically, the held-to-maturity securities are subject to review for impairment. Provision for impairment of these securities is made when there has been a significant or prolonged decline in the fair value below their cost. Provision for impairment is recognised as "Net gain/(loss) from securities investment" in the income statement.

2.10 Property and equipment

Property and equipment consist of building improvements, furniture and fixtures, computer equipment and motor vehicles.

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

The cost of an asset comprises its purchase price plus any directly attributable costs of bringing the asset to working condition for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to statement of income during the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.10 Property and equipment

Depreciation of property and equipment is provided for on a straight-line basis to write down the cost of each asset to its residual value over the estimated useful life in accordance with the Tax Law No.67/NA dated 18 June 2019 which is effective on or after 1 January 2020 stipulated by the President of the National Assembly. The following are the annual depreciation rates used:

Category	Depreciation rate
Building improvements	5%
Furniture and fixtures	20%
Computer equipment	20%
Motor vehicles	20%

Leasehold improvements are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

When assets are sold or disposed, their cost and accumulated depreciation are removed from the balance sheet and any gains or losses resulting from their disposal are posted to the income statement.

2.11 Statutory Reserves

Under the requirement of the Law on commercial Bank dated 7 December 2018, commercial banks are required to appropriate net profit to following reserves:

- Regulatory reserve fund
- Business expansion fund and other funds

In accordance with Article 156, Enterprise Law dated 26 December 2013, the Bank is required to appropriate 10% of profit after tax each year into regulatory reserve fund. When this reserve fund reaches 50% of the registered capital, the Bank may suspend such provision, unless otherwise provided by the laws.

The Business expansion fund and other funds shall be created upon decision of the Management.

2.12 Leases for lessee

Leases are recognised as a right of use asset and a corresponding liability at the date which the leased asset is available for use by the Branch. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments).

Lease payments to be made under reasonably certain extension options are also included in the measurement of liability.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be really determined, which is generally the case for leases in the Branch, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security, and conditions.

Right of use assets are measured at cost comprising the amount of the initial measurement of lease liability. Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

**NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.13 Profit tax

The Branch is obliged to pay profit tax at the rate of 20% (2021:20%) of total profit before tax for the year ended 31 December 2022 in accordance with the Tax Law No.67/NA dated 18 June 2019 which is effective on or after 1 January 2020. The Branch's tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations in many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities. Profit taxes shall be paid every 20th of July of the year and every 20th January of the following year.

2.14 Employee benefits

Short term employee benefits

Wages, salaries paid, annual leave and sick leave and other leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Branch.

Post-employment benefits

Post-employment benefits are paid to retired employees of the Branch by the National Social Security Fund Department which belongs to the Ministry of Labor and Social Welfare. The Branch is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6.00% of employee's basic salary on a monthly basis but the amount shall not exceed LAK 270,000 per staff per month. The Branch has no further significant obligation concerning post-employment benefits for its employees other than this.

Termination benefits

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Branch has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- The employee lacks specialised skills or is not in good health and thus cannot continue to work;
- The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the last salary or wage multiplied by the total number of months worked. As at 31 December 2021, there are no employees of the Branch who were dismissed under the above-mentioned grounds; therefore, the Branch has not made a provision for termination allowance in the financial statements.

2.15 Related parties

Enterprises or individuals that directly or indirectly through one or more intermediaries, control, or are under controlled by or are under common control with the Branch including holding companies, subsidiaries and fellow subsidiaries are related parties of the Branch. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Branch that gives them significant influence over the Branch key management personnel including directors and officers of the Branch and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

BANK OF CHINA (HONG KONG) LTD., VIENTIANE BRANCH

NOTES TO THE FINANCIAL STATEMENTS
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3. NET INTEREST AND SIMILAR INCOME

	2022 LAKm	2021 LAKm
Interest and similar income from:		
Interbank transactions	318,742	148,571
Loans to customers	94,408	61,474
Held-to-maturity securities	13,297	21,947
	426,447	231,992
Interest and similar expense for:		
Interbank transactions	(4,425)	(1,174)
Customer deposits	(131,283)	(42,904)
	(135,708)	(44,078)
Net interest and similar income	290,739	187,914

4. NET FEES AND COMMISSION INCOME

	2022 LAKm	2021 LAKm
Fees and commission income from:		
Settlement activities	4,170	4,292
Treasury activities	2,287	12,189
Other activities	3,405	4,680
	9,862	21,161
Fees and commission expenses for:		
Financial enterprise fee	(649)	(1,045)
Clearing fee payable to central bank	3	(81)
Membership fee	(666)	(52)
	(1,312)	(1,178)
Net fees and commission income	8,550	19,983

5. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2022 LAKm	2021 LAKm
Net gain from foreign exchange spot rate differences	17,022	11,503
Net gain from revaluation of monetary items	351,098	105,332
	368,120	116,835

6. PAYROLL AND OTHER STAFF COSTS

	2022 LAKm	2021 LAKm
Wages and allowances	43,841	29,125
Other staff costs	3,854	2,039
	47,695	31,164

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**NOTES TO THE FINANCIAL STATEMENTS
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7. OTHER ADMINISTRATION EXPENSES

	2022	2021
	LAKm	LAKm
Office rental	3,557	2,558
External services	656	570
Repair and maintenance	902	661
Publication, marketing and promotion	311	196
Telecommunication	2,509	1,858
Training, meeting and seminar	1,082	186
Electricity and water	1,578	1,119
Others	3,545	8,415
	14,140	15,563

8. OTHER OPERATING EXPENSES

	2022	2021
	LAKm	LAKm
Insurance fees for Depositor Protection Fund	8,782	4,237
Other expenses	7,790	1,746
	16,572	5,983

9. INCOME TAX EXPENSE

The Branch is obliged to pay profit tax at rate of 20% (2021: 20%) on total profit before tax of the year in accordance with Tax Law No.67/NA dated 18 June 2019 which is effective on or after 1 January 2020.

	2022	2021
	LAKm	LAKm
Profit before tax (i)	550,993	224,642
Non-taxable income	(2,634)	-
Non-deductible expenses	281	5,323
Taxable income	548,640	229,965
Current profit tax expense, at the statutory rate of 20%	109,728	45,993
Profit tax payable at the beginning of the year	13,511	3,995
Profit tax paid during the year	(107,942)	(36,477)
PT payable at the end of the year (Note 20)	15,297	13,511

The taxation system in the Lao PDR is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Lao PDR substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

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**NOTES TO THE FINANCIAL STATEMENTS
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10. CASH AND BALANCES WITH CENTRAL BANK

	2022 LAKm	2021 LAKm
Cash on hand (Note 10.1)	68,686	61,335
Balances with central bank (Note 10.2)	4,919,302	2,861,472
	4,987,988	2,922,807

10.1 Cash on hand

	2022 LAKm	2021 LAKm
Cash on hand in LAK	7,039	8,215
Cash on hand in foreign currencies	61,647	53,120
Included in cash and cash equivalent	68,686	61,335

10.2 Balances with central bank

	2022 LAKm	2021 LAKm
Demand deposits	295,152	420,491
Term deposit (i)	4,150,000	2,208,200
Compulsory deposit (ii)	474,145	232,776
Registered capital reserve (iii)	5	5
	4,919,302	2,861,472

- (i) The term deposits at the BOL have terms of 3 years and 5 years and earn interest at the fixed rate of 7.00% and floating rates of 3.00% + Libor 6-months rate per annum and 4.30% + Libor 6-month rate per annum.
- (ii) Under regulations of the BOL, the Branch is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 5.00% for foreign currencies, on a bi-monthly basis, (2021: 3.00% and 5.00%) of customer deposits having original maturities of less than 12 months. During the year, the Branch maintained its compulsory deposits in compliance with the requirements of the BOL.
- (iii) Under the regulation of Decree No. 02/PR of the BOL, foreign bank branches are required to maintain a minimum balance of special deposit at the BOL (registered capital reserve) which is equivalent to 25% of their paid-up capital to secure for their operational continuance. The Branch was then approved by the BOL in Official Letters No. 194/BOL dated 18 May 2015, 239/BOL dated 18 June 2015 and 334/BOL dated 19 August 2016 to withdraw from this deposit account to supplement its working capital.

Balances of demand deposit, compulsory deposit and registered capital reserve with the BOL earn no interest.

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**NOTES TO THE FINANCIAL STATEMENTS
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11. DUE FROM BANKS

	2022	2021
	LAKm	LAKm
Demand deposits with domestic banks		
Industrial and Commercial Bank of China Limited, Vientiane Branch	17,581	1,374
Demand deposits with overseas banks		
Bank of China, Shanghai RMB Trading Unit	12,020	22,846
Bank of China (Hong Kong) Limited	226,056	90,999
Bank of China (Thai) Public Co., Ltd	71,798	34,214
Bank of China Frankfurt Branch	107	37
Bank of China, Head Office	74,719	13,452
Bank of China, Shanghai Branch	119	90
	402,400	163,012

12. CASH AND CASH EQUIVALENTS

	2022	2021
	LAKm	LAKm
Cash on hand (Note 10.1)	68,686	61,335
Demand deposits with BOL (Note 10.2)	295,152	420,491
Demand deposits with other banks (Note 11)	402,400	163,012
	766,238	644,838

13. INVESTMENT SECURITIES

	2022	2021
	LAKm	LAKm
Bonds issued by the BOL	14,000	552,050
	14,000	552,050

Details of bonds issued by the BOL as at 31 December 2022 are as follows:

Term	Purchase date	Maturity date	Face value	LAKm	Interest rate
			LAKm	Equivalent	% per annum
12 months	13 January 2022	13 January 2023	8,000	8,000	5.10%
12 months	19 December 2022	19 December 2023	6,000	6,000	5.50%
			14,000	14,000	

Details of bonds issued by the BOL as at 31 December 2021 are as follows:

Term	Purchase date	Maturity date	Face value	LAKm	Interest rate
			USD	Equivalent	% per annum
5-years	16 June 17	16 June 2022	50,000,000	552,050	4.30% + Libor 6 months
			50,000,000	552,050	

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**NOTES TO THE FINANCIAL STATEMENTS
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14. LOANS TO CUSTOMERS, NET OF ALLOWANCE FOR CREDIT LOSSES

	2022 LAKm	2021 LAKm
Loans to customers	2,060,419	1,475,446
Accrued interest receivable	11,783	7,248
Less: allowance for credit losses	(145,568)	(75,201)
	1,926,634	1,407,493

Interest rates for loans to customers during the year are as follows:

	2022 Interest rates (% per annum)	2021 Interest rates (% per annum)
Loans denominated in LAK	7.50 - 11.00	6.80 - 11.00
Loans denominated in USD	3.50 - 7.00	2.70 - 7.00
Loans denominated in CNY	-	2.80 - 6.50

14.1 Analysis of loans to customers

Analysis by currency

	2022 LAKm	2021 LAKm
Loans denominated in LAK	344,891	225,390
Loans denominated in USD	1,715,528	1,221,132
Loans denominated in CNY	-	28,924
	2,060,419	1,475,446

Analysis by status of loans

	2022 LAKm	2021 LAKm
Performing loans	2,060,419	1,475,446
	2,060,419	1,475,446

Analysis by original term

	2022 LAKm	2021 LAKm
Short-term loans	210,760	85,956
Medium-term loans	1,078,197	774,277
Long-term loans	771,462	615,213
	2,060,419	1,475,446

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**NOTES TO THE FINANCIAL STATEMENTS
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14. LOANS TO CUSTOMERS, NET OF ALLOWANCE FOR CREDIT LOSSES

14.1 Analysis of loans to customers

Analysis by economic sectors

	2022	2021
	LAKm	LAKm
Industrial services companies	516,892	451,133
Construction companies	1,115,821	786,319
Equipment-technical companies	60,000	-
Agriculture companies	232,800	88,329
Trading companies	9,960	-
Banking Industry	72,077	47,940
Others	52,869	101,725
	2,060,419	1,475,446

14.2 Provision for credit losses

Movement of provision of the Branch during the year is as follows:

	2022	2021
	LAKm	LAKm
ECL allowance as at 1 January	75,201	26,299
Impairment charge during the year	34,500	43,803
Foreign currency differences	35,867	5,099
As at 31 December	145,568	75,201

15. LOANS TO PARENT COMPANY

	2022	2021
	LAKm	LAKm
Gross loans to parent company	5,220,900	3,342,760
As at 31 December	5,220,900	3,342,760

Loans to parent company have terms of ranging from 1 month to 3 months which earns interest at the rate of ranging from 1.20% to 4.62% per annum.

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16. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Movement for the year ended 31 December 2022 is as follows:

	Property and equipment				Right-of-use assets	Total LAKm
	Building improvement LAKm	Furniture & fixtures LAKm	Computer equipment LAKm	Motor vehicles LAKm	Building LAKm	
Cost						
At 1 January 2022	7,448	2,994	9,243	2,883	13,062	35,630
Additions	-	28	715	-	-	743
At 31 December 2022	7,448	3,022	9,958	2,883	13,062	36,373
Accumulated depreciation						
At 1 January 2022	7,448	2,734	6,810	1,982	6,399	25,373
Charge for the year	-	134	928	387	2,185	3,634
At 31 December 2022	7,448	2,868	7,738	2,369	8,584	29,007
Net book value						
As at 31 December 2022	-	154	2,220	513	4,478	7,366

Movement for the year ended 31 December 2021 is as follows:

	Property and equipment				Right-of-use assets	Total LAKm
	Building improvement LAKm	Furniture & fixtures LAKm	Computer equipment LAKm	Motor vehicles LAKm	Building LAKm	
Cost						
At 1 January 2021	7,448	2,994	8,443	2,883	13,954	35,722
Additions	-	-	800	-	-	800
Adjustments	-	-	-	-	(892)	(892)
At 31 December 2021	7,448	2,994	9,243	2,883	13,062	35,630
Accumulated depreciation						
At 1 January 2021	7,448	2,685	5,780	1,629	4,214	21,756
Charge for the year	-	49	1,030	353	2,185	3,617
At 31 December 2021	7,448	2,734	6,810	1,982	6,399	25,373
Net book value						
As at 31 December 2021	-	260	2,433	901	6,663	10,257

17. OTHER ASSETS

	2022 LAKm	2021 LAKm
Accrued interest receivable	74,611	44,322
Others	235	17,006
As at 31 December	74,846	61,328

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**NOTES TO THE FINANCIAL STATEMENTS
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18. DUE TO BANKS

	2022	2021
	LAKm	LAKm
Demand deposits from domestic banks		
ANZ Bank (Laos) Limited	99,724	151,332
Canadia Bank Lao Limited	157	112
Banque Pour Le Commerce Exterieur Lao Public	135,005	94,510
Lao China Bank Limited	39,264	24,325
Banque Franco Lao Ltd	166	110
Term deposits from domestic banks		
Canadia Bank Lao Limited	33,200	22,082
Borrowing from overseas banks		
Bank of China (Hong Kong) Limited	996,000	783,911
	1,303,516	1,076,382

The term deposit from Canadia Bank Lao Limited has a term of 6 months and bears interest at the rate 1.50% per annum.

The term deposit from Bank of China (Hong Kong) Limited has a term of 1 month and bears interest at the rate of 0.22% per annum.

19. DUE TO CUSTOMERS

	2022	2021
	LAKm	LAKm
Demand deposits	4,862,127	1,885,827
- in LAK	288,798	141,443
- in foreign currencies	4,573,329	1,744,384
Saving deposits	462,750	406,792
- in LAK	17,699	21,102
- in foreign currencies	445,051	385,690
Term deposits	4,478,393	4,030,517
- in LAK	7,289	7,160
- in foreign currencies	4,471,104	4,023,357
	9,803,270	6,323,136

The interest rates during the year for these deposits are as follows:

	2022	2021
	Interest rate	Interest rate
	(% per annum)	(% per annum)
Demand deposits in LAK	No interest	No interest
Demand deposits in foreign currencies	No interest	No interest
Saving deposits in LAK	1.11	1.11
Saving deposits in USD	1.25	1.25
Saving deposits in THB	0.50	0.50
Saving deposits in CNY	0.90	0.90
Term deposits in LAK	3.00 - 6.25	3.00 - 6.25
Term deposits in USD	1.25 - 6.75	1.75 - 5.75
Term deposits in THB	0.90 - 4.50	0.90 - 4.50
Term deposits in CNY	1.60 - 2.40	1.60 - 2.20

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**NOTES TO THE FINANCIAL STATEMENTS
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20. OTHER LIABILITIES

	2022	2021
	LAKm	LAKm
Accrued interest payable	53,653	33,984
Payable to Bank of China (Hong Kong) Limited	46,192	30,691
Payable to employee	14,101	7,923
Transaction waiting for settlement	3,826	29,154
Profit tax payable (Note 9)	15,297	13,511
Others	11,251	3,163
	144,320	118,426

21. RELATED PARTY TRANSACTIONS

Related party transactions include all transactions undertaken with other parties to which the Branch is related. A party is related to the Branch if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Branch (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the Branch that gives it significant influence over the Branch; or
 - has joint control over the Branch.
- (b) the party is a joint venture in which the Branch is a venture;
- (c) the party is a member of the key management personnel of the Branch or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Branch, or of any entity that is a related party of the Branch.

Significant balances with related parties are as follows:

Related party	Relationship	Balances	Note	2022	2021
				Receivable/ (Payable)	Receivable/ (Payable)
				LAKm	LAKm
Bank of China (Hong Kong) Limited	Parent bank	Demand deposit	11	226,056	90,999
		Borrowing	18	(996,000)	(783,911)
		Accrued interest		(1,546)	(114)
		Lending	16	5,220,900	3,342,760
		Accrued interest		20,765	9,466
		Other payable	20	(46,192)	(30,691)
Bank of China, Head Office	Affiliate	Demand deposit	11	74,719	13,452
Bank of China Limited, Shanghai RMB Trading Unit	Affiliate	Demand deposit	11	12,020	22,846
Bank of China (Thai) Public Company Limited	Affiliate	Demand deposit	11	71,798	34,214
Bank of China Shanghai Branch	Affiliate	Demand deposit	11	119	90
Bank of China Frankfurt Branch	Affiliate	Demand deposit	11	107	37

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22. RELATED PARTY TRANSACTIONS

Significant transactions with related parties during the year were as follows:

	2022 LAKm	2021 LAKm
Interest income from deposits at Bank of China, Shanghai RMB Trading Unit	-	4,023
Interest income from loan to Bank of China (Hong Kong) Limited	102,459	38,499
Interest expense from borrowing from Bank of China (Hong Kong) Limited	4,040	(984)

Transactions with key management personnel of the Branch

Remuneration to Management is as follows:

	2022 LAKm	2021 LAKm
Salaries and bonus	457	338
	457	338

