RHB Bank Berhad -

Brunei Darussalam Branch

Financial Statements
As at and for the year ended 31 December 2020
(With comparative figures as at and for the year ended 31 December 2019)

pwc

Independent Auditor's Report

RHB Bank Berhad - Brunei Darussalam Branch
Unit G.02, Komplek Yayasan Sultan Haji Hassanal Bolkiah,
Bandar Seri Begawan BS 8711, Brunei Darussalam

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements of RHB Bank Berhad - Brunei Darussalam Branch (the "Branch") give a true and fair view of the financial position of the Branch as at 31 December 2020, and its financial performance, changes in Head Office account and cash flows for the year then ended in accordance with the provisions of the Brunei Darussalam Companies Act, Chapter 39 (the "Act") and the International Financial Reporting Standards ("IFRSs").

What we have audited

Thc financial statements of the Branch comprise:

- the statement of financial position as at 31 December 2020;
- the statement of total comprehensive income for the year ended 31 December 2020;
- the statement of changes in Head Office account for the year ended 31 December 2020;
- the statement of cash flows for the year ended 31 December 2020; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (the "Code"), together with the ethical requirements that are relevant to our audit of the financial statements in Brunei Darussalam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

Other Matter

The financial statements of the Branch as at and for the year ended 31 December 2019 were audited by another audit firm, who expressed an unmodified opinion on those statements on 30 March 2020.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Act and the IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Branch 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.

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers Services

Chai Xiang Yuin
Partner

Brunei Darussalam
29 March 2021

RHB Bank Berhad
Brunei Darussalam Branch

Statement of Financial Position
31 December 2020
(With comparative balances as at 31 December 2019)
(In thousands of Brunei Dollar)

	Notes	2020	2019
ASSETS			
Cash and short-term funds	4	104,709	86,185
Balances with Autoriti Monetari Brunei Darussalam (AMBD)	5	7,868	6,610
Group balances receivable	6	3,702	3,622
Government sukuk	7	10,000	10,000
Loans and advances to customers	8	56,371	54,914
Right-of-use asset	9	204	340
Property and equipment	10	181	259
Other assets	11	1,620	1,492
Total assets		184,655	163,422
LIABILITIES AND HEAD OFFICE ACCOUNT			
LIABILITIES			
Deposits from customers	12	123,915	104,862
Deposits from banks and other financial institutions	13	765	678
Group balances payable	14	16,384	15,088
Other liabilities	15	930	799
Provision for taxation		123	132
Lease liability	16	209	343
Total liabilities		142,326	121,902
HEAD OFFICE ACCOUNT			
Head office account	17	42,329	41,520
Total head office account		42,329	41,520
Total liabilities and head office account		184,655	163,422

The notes on pages 1 to 34 are an integral part of these 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 RHB Bank Berhad ("the Branch") as at 31 December 2020 and the financial performance and cash flows of the Branch for the year ended 31 December 2020 based on the provisions of the Brunei Darussalam Companies Act, Chapter 39 and the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ishak Bin Othman
Chief Executive Officer

Tunku Mohammad Firdaus bin Tunku Tahaya
Head of Operations

RHB Bank Berhad
Brunei Darussalam Branch

Statement of Total Comprehensive Income
For the year ended 31 December 2020
(With comparative figures for the year ended 31 December 2019)
(In thousands of Brunei Dollar)

	Notes	2020	2019
Interest income	19	3,854	4,239
Interest expense	19	(909)	(1,084)
Net interest income		**2,945**	**3,155**
Fee and commission income	20	413	390
Other income	21	411	254
Total operating income		3,769	3,799
Allowance for credit losses on financial assets, net	24	(150)	(22)
Net operating income		3,619	3,777
Operating expenses			
Personnel expenses	22	(1,524)	(1,401)
Depreciation of right-of-use asset	9	(136)	(68)
Depreciation of property and equipment	10	(78)	(94)
Operating lease expenses		(69)	(141)
Interest expense on leases	16	(10)	(7)
Other expenses	23	(845)	(825)
		(2,662)	(2,536)
PROFIT BEFORE TAXATION		**957**	**1,241**
Tax expense	25	(148)	(106)
NET PROFIT FOR THE YEAR		**809**	**1,135**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**809**	**1,135**

The notes on pages 1 to 34 are an integral part of these financial statements.

RHB Bank Berhad
Brunei Darussalam Branch

Statement of Changes in Head Office Account
For the year ended 31 December 2020
(With comparative figures for the year ended 31 December 2019)
(In thousands of Brunei Dollar)

	Note	Assigned capital	Reserves	Retained profits	Total
BALANCES AS AT 1 JANUARY 2019		**30,000**	**5,053**	**5,332**	**40,385**
COMPREHENSIVE INCOME					
Net profit for the year		-	-	1,135	1,135
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	1,135	1,135
Transfers between reserves	17	-	567	(567)	-
BALANCES AS AT 31 DECEMBER 2019		**30,000**	**5,620**	**5,900**	**41,520**
COMPREHENSIVE INCOME					
Net profit for the year		-	-	809	809
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	809	809
Transfers between reserves	17	-	404	(404)	-
BALANCES AS AT 31 DECEMBER 2020		**30,000**	**6,024**	**6,305**	**42,329**

The notes on pages 1 to 34 are an integral part of these financial statements.

RHB Bank Berhad
Brunei Darussalam Branch

Statement of Cash Flows
For the year ended 31 December 2020
(With comparative figures for the year ended 31 December 2019)
(In thousands of Brunei Dollar)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the year		957	1,241
Adjustments for:			
Depreciation of property and equipment	10	78	94
Depreciation of right-of-use asset	9	136	68
Allowance for credit losses on financial assets	24	373	51
Net interest income	19	(2,945)	(3,155)
Interest expense on leases	16	10	7
Operating loss before changes in operating assets and liabilities		(1,391)	(1,694)
Changes in operating assets and liabilities			
(Increase)/decrease in:			
Loans and advances to customers		(1,810)	(41)
Group balances receivable		(80)	3,362
Balances with AMBD		(1,259)	(585)
Other assets		(108)	398
Increase/(decrease) in:			
Deposits from customers		19,053	9,124
Deposits from banks and other financial institutions		87	85
Group balances payable		1,296	2,119
Other liabilities		131	(31)
Cash generated from operations		15,919	12,737
Interest received		4,039	3,960
Interest expense paid		(951)	(959)
Income tax paid		(157)	(2)
Net cash generated from operating activities		18,850	15,736
CASH FLOWS FROM INVESTING ACTIVITIES			
Placements with banks		12,645	7,450
Purchase of property, plant and equipment	10	-	(49)
Purchase of government sukuk		(41,977)	(43,043)
Redemption of government sukuk		41,977	46,210
Net cash generated from investing activities		12,645	10,568
CASH FLOW USED IN FINANCING ACTIVITY			
Payments of principal and interest portion of lease liability	16	(144)	(72)
NET INCREASE IN CASH AND CASH EQUIVALENTS		31,351	26,232
At 1 January		42,435	16,203
At 31 December	18	73,786	42,435

The notes on pages 1 to 34 are an integral part of these financial statements.

1 General information

RHB Bank Berhad, a bank incorporated in Malaysia, has the registered office of its Brunei Branch (the "Branch") at Unit G.02, Komplek Yayasan Sultan Haji Hassanal Bolkiah, Bandar Seri Begawan BS 8711, Brunei Darussalam.

The Branch is a segment of RHB Bank Berhad (the "Head Office") and is not a separately incorporated legal entity. The Branch operates under a full banking license granted by the Autoriti Monetari Brunei Darussalam (AMBD).

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 ended 31 December 2020.

The financial statements were authorised for issue by the Branch's Management on 29 March 2021.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the provisions of the Brunei Darussalam Companies Act, Chapter 39 (the "Act") and the International Financial Reporting Standards ("IFRSs").

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These financial statements are presented in Brunei Dollar (BND or B$), which is the Branch's functional and presentation 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, including management judgements, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Allowance for credit losses on loans and advances (Note 8)

The Branch's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining expected credit loss include:

- The Branch's criteria for assessing if there has been a significant increase in credit risk; and

- Development of ECL models, including the choice of inputs relating to macroeconomic variables.

The calculation of ECL also includes expert credit judgement to be applied by credit risk management team based on counterparty information they receive from various sources including relationship managers and external market information.

Further information about key assumptions concerning future and other key sources of estimation uncertainty, are set out in Notes 3.5 and 31(i).

Allowance for credit losses on other financial assets

The Branch determines the recoverable amount of other financial assets based on assumptions about risk of default and expected loss rates. The Branch applies judgment in making these assumptions and selecting the inputs to the impairment calculation based on the Branch's past history and existing market conditions as well as forward-looking estimates at the end of each reporting period.

Impairment of non-financial assets

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

Management believes that no impairment is necessary to be recognised on the Branch's non-financial assets as at 31 December 2020 and 2019.

2.5 Changes in accounting policies and disclosures

(a) Amendments to the existing standards adopted by the Branch

The Branch has applied the following amendments to the standards for the first time for their annual reporting period commencing 1 January 2020:

- Amendment to PFRS 16, *"Leases"*

  As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. The amendment, effective 1 June 2020, provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

  The adoption of the above amendments did not have an impact on the Branch's financial statements as there are no lease concessions offered by the lessor.

- Amendments to IAS 1, *'Presentation of Financial Statements'*, and IAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*

  The International Accounting Standards Board (IASB) has made amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* to use a consistent definition of materiality throughout the International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarifying when information is material and incorporating some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole; and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The adoption of the above amendments did not have an impact on the Branch's financial statements.

Other standards, amendments to standards and interpretations which are effective for the financial year beginning on 1 January 2020 are considered not relevant or material to the Branch's financial statements.

(b) *New standards, interpretations and amendments not yet adopted by the Branch*

There are no relevant standards, interpretations, and amendments that are effective beginning on or after 1 January 2020 that are expected to have a material impact on the Branch's financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to both years presented in the financial statements unless otherwise stated.

3.1 Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Branch at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in the statement of total comprehensive income.

3.2 Financial instruments

i. Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables and debt investments issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Branch becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. *Classification and subsequent measurement*

Non-derivative financial assets

On initial recognition, a financial asset is classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Branch changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets: Business model assessment

The Branch makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Branch's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Branch's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

The Branch has no financial assets measured at FVTPL as at 31 December 2020 and 2019.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Branch considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and

- terms that limit the Branch's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Non-derivative financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in statement of total comprehensive income. Any gain or loss on derecognition is recognised in the statement of total comprehensive income.

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

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

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

The Branch has no financial liabilities measured at FVTPL as at 31 December 2020 and 2019.

iii. ***Derecognition***

Financial assets

The Branch derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Branch neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Branch enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

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

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the statement of total comprehensive income.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

As at 31 December 2020 and 2019, there are no financial assets and liabilities that have been offset.

v. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Branch's cash management are included in cash and cash equivalents.

3.3 Property and equipment

i. Recognition and measurement

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in statement of total comprehensive income.

ii. Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Branch, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in statement of total comprehensive income as incurred.

iii. Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in statement of total comprehensive income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment, unless it is included in the carrying amount of another asset.

Depreciation is recognised from the date that the property and equipment are installed and are ready for use.

The estimated useful lives for the current and comparative years are as follows:

Renovation	10 years
Equipment and furniture	3 to 10 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.4 Leases

The Branch as the lessee

At commencement or on modification of a contract that contains a lease component, the Branch allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Branch recognises a right-of-use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Branch by the end of the lease term or the cost of the ROU asset reflects that the Branch will exercise a purchase option. In that case the ROU asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, the Branch uses the lessee's incremental borrowing rate as the discount rate.

The Branch determines the lessee's incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Branch is reasonably certain to exercise, lease payments in an optional renewal period if the Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Branch is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Branch's estimate of the amount expected to be payable under a residual value guarantee, if the Branch changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in statement of total comprehensive income if the carrying amount of the ROU asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Branch has elected not to recognise ROU assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Branch recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.5 Impairment of financial assets

The Branch recognises loss allowances for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to expected credit losses (ECL) include financial guarantees and undrawn loan commitments.

The general approach is adopted by the Branch. ECL is assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL - not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

(ii) Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due or more.

(iii) Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised. Generally, all financial assets that are 90 days past due or more are classified under Stage 3.

The Branch considers the following as constituting an event of default:

(1) Quantitative criteria

- The borrower is past due more than 90 days on any material credit obligation to the Branch.

(2) Qualitative criteria

- Legal action has been initiated by the Branch for recovery purposes;
- Borrower is a bankrupt;
- Borrower has been assigned to external collection agency; and
- When there is modification referring to any changes in the contractual cash flow of loan due to credit deterioration reasons.

Significant increase in credit risk ('SICR')

(1) The Branch considers the probability of default upon initial recognition of the asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Branch compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

(2) Among the indicators incorporated in ascertaining SICR are:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrower in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the Probability of Default model ('PD'), Loss Given Default model ('LGD') and Exposure at Default model ('EAD'). The changes in ECL between two-periods will be recognised in statement of total comprehensive income.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Branch's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the statement of total comprehensive income.

Other relevant historical information, loss experience or proxies will be utilised if deemed feasible.

In determining the ECL, management will evaluate a range of possible outcomes, taking into account past events, current conditions/trends and economic outlooks. Additional considerations that are assessed to have been adequately addressed by the ECL model estimates, a structured management overlay, which is subject to robust review and governance process, will be applied consistently.

Generally, all financial assets are considered to have experienced a significant increase in credit risk if the exposures is more than 30 days past due on its contractual payments.

3.6 Impairment of non-financial assets

The carrying amounts of the Branch's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in the statement of total comprehensive income. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

3.7 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of total comprehensive income in the periods during which related services are rendered by employees.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.8 Provisions and contingencies

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

3.9 Interest income and expense

Interest income for financial assets held at fair value through other comprehensive income or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in statement of total comprehensive income using the effective interest rate method.

Interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that 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 cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

Interest income for financial assets that are either held at fair value through other comprehensive income or amortised cost that have become credit impaired subsequent to initial recognition (Stage 3) and have had amounts written off, is recognised using the credit adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognised on the amortised cost of the financial asset including expected credit losses. Should the credit risk on a Stage 3 financial asset improve such that the financial asset is no longer considered credit impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

3.10 Fees and commission

Other fees and commission income, including renewal fees, cancellation fees, commissions and service fees, are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, and are expensed as the services are received.

3.11 Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in statement of total comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, measured using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Branch expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Branch. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3.12 Comparative information

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

3.13 Subsequent events

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

4 Cash and short-term funds

This account as at 31 December consists of:

	2020	2019
Cash on hand	5,657	5,081
Balances placed with AMBD (unrestricted balance)	21,390	22,034
Balances with banks and other financial institutions	77,662	59,070
	104,709	86,185

As at 31 December 2020, placements with maturity of three (3) months or less from the date of acquisition amounting to B$46,739 (2019 - B$15,230) are classified as cash and cash equivalents in the statement of cash flows (Note 18).

5 Balances with AMBD

As at 31 December 2020 this account amounted to B$7,868 (2019 - B$6,610).

The minimum cash reserve is maintained as required by the provisions of Section 45 of the Brunei Darussalam Banking Order 2006. This is not available for use in the Branch's day to day operations. At 31 December 2020 and 2019, the minimum cash reserve requirement is 6% of the deposit liabilities and is not earning interest.

6 Group balances receivable

This account as at 31 December consists of:

	2020	2019
RHB Bank Berhad - Singapore Branch	3,698	3,618
RHB Bank Berhad - Bangkok Branch	4	4
	3,702	3,622

All group balances receivables are current, collectible on demand and bear annual interest rates ranging from 0.13% to 5.50% in 2020 and 2019.

7 Government sukuk

This account as at 31 December consists of:

	2020	2019
Government sukuk held		
Original maturity less than one year	10,000	10,000

The Branch classifies Government sukuk as financial asset at amortised cost. Government sukuk bears annual interest rates ranging from 0.13% to 1.38% in 2020 (2019 - 1.38% to 1.44%).

8 Loans and advances to customers

Loans and advances to customers as at 31 December analysed by type:

	Note	2020	2019
Cash line/overdrafts		13,678	13,103
Term loans:			
Property loans		16,486	15,300
Other term loans		23,466	23,633
Trust receipts		3,116	3,101
Gross loans and advances		56,746	55,137
Less: Allowance for credit losses on loans and advances to customers	31(i)	(375)	(223)
		56,371	54,914

Maturity profile of the Branch's loans and advances to customers at 31 December follows:

	2020	2019
Current	6,597	6,728
Non-current	49,774	48,186
	56,371	54,914

Temporary regulatory relief (the "Moratorium")

As a result of the COVID-19 situation, AMBD released a notice for a temporary regulatory relief allowing loan customers to apply for temporary deferment or restructuring of their loan payments and accounts.

As at 31 December 2020, availment of the moratorium amounted to the following:

	Amount
Corporate loans	1,784
Retail loans	7,971
Gross loans and advances	9,755

Staging of loans which availed moratorium are as follows:

	Amount
Stage 1	9,552
Stage 2	203
Stage 3	-
	9,755

The related loans above have an average maturity period of eight (8) years.

9 Right-of-use asset

The Branch leases an office space. The lease was entered into during 2019, with an option to renew after three (3) years. Lease payments are renegotiated every three (3) years to reflect market rentals. The Branch is restricted from entering into any sub-lease arrangements.

The Branch leases office equipment with contract terms of one to two years. These leases are short-term and/or leases of low-value items. The Branch has elected not to recognise right-of-use (ROU) asset and lease liability for these leases.

The rollforward analysis of right-of-use asset recognised in relation to IFRS 16 is shown below:

	Amount
Balance at 1 January 2019	-
Additions to right-of-use asset	408
Depreciation charge during the year	(68)
Balance at 31 December 2019	340
Additions to right-of-use asset	-
Depreciation charge during the year	(136)
Balance at 31 December 2020	204

The amounts recognised in statement of total comprehensive income in relation to IFRS 16 is shown below:

	2020	2019
Interest on lease liability	10	7
Expenses relating to short-term leases and low-value assets (included under Operating expenses)	9	3

Extension options

The lease of office space contains an extension option exercisable by the Branch up to three years before the end of the non-cancellable contract period. Where practicable, the Branch seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Branch and not by the lessors. The Branch assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Branch reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Branch has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of B$371 (2019 - B$371).

10 Property and equipment

This account as at 31 December consists of:

At 31 December 2020	Renovation	Equipment and furniture	Motor vehicles	Total
Cost				
1 January	1,237	1,615	106	2,958
Additions	-	-	-	-
	1,237	1,615	106	2,958
Accumulated depreciation				
1 January	1,234	1,359	106	2,699
Depreciation	1	77	-	78
	1,235	1,436	106	2,777
Net book value	2	179	-	181

At 31 December 2019	Renovation	Equipment and furniture	Motor vehicles	Total
Cost				
1 January	1,237	1,566	106	2,909
Additions	-	49	-	49
	1,237	1,615	106	2,958
Accumulated depreciation				
1 January	1,233	1,276	96	2,605
Depreciation	1	83	10	94
	1,234	1,359	106	2,699
Net book value	3	256	-	259

11 Other assets

This account as at 31 December consists of:

	2020	2019
Accrued interest receivable	285	470
Prepayments	114	168
Deposits	90	89
Other receivables	1,131	765
	1,620	1,492

12 Deposits from customers

Analysed by type of deposits as at 31 December is as follow:

	2020	2019
Demand deposits	27,619	22,563
Savings deposits	5,742	5,542
Fixed deposits	90,431	76,640
Others	123	117
	123,915	104,862

Analysed by type of customers as at 31 December:

	2020	2019
Government	35,694	22,000
Business enterprises	51,303	46,654
Individuals	36,795	36,091
Others	123	117
	123,915	104,862

Deposits from customers bear annual interest rates ranging from 0.15% to 0.35% in 2020 (2019 - 0.15% to 0.75%).

13 Deposits from banks and other financial institutions

	2020	2019
Banks and financial institutions	765	678

Deposits from banks and other financial institutions are current in nature, unsecured and non-interest bearing.

14 Group balances payable

This account as at 31 December consists of:

	2020	2019
RHB Bank Berhad - Head Office	16,338	15,047
RHB Bank Berhad - Singapore Branch	42	37
RHB Bank Berhad - Bangkok Branch	4	4
	16,384	15,088

As at 31 December 2020 and 2019, all group balances payable are unsecured and bear annual interest rates ranging from 0.05% to 1.00% and are expected to be settled within 12 months after the reporting date.

15 Other liabilities

This account as at 31 December consists of:

	2020	2019
Creditors and accruals	547	374
Accrued interest payable	383	425
	930	799

As at 31 December 2020 and 2019, creditors and accruals consist of accounts payable and accrued expenses for bonuses and professional fees.

16 Lease liability

	2020	2019
Balance at 1 January	343	-
Changes from financing cash flows		
Payment of principal portion	(134)	(65)
Interest paid	(10)	(7)
	(144)	(72)
Other changes		
New lease	-	408
Interest expense	10	7
	10	415
Balances at 31 December	209	343

17 Head Office Account

The account comprises capital and current accounts with Head Office, and includes the profit for the year and reserves.

Reserves

The account at 31 December consist of:

	2020	2019
Statutory reserve fund	6,024	5,620

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

In accordance with Section 6 of the Prudential Treatment of Problem Assets and Accounting for Expected Credit Losses, the Branch shall appropriate an amount equal to the accrued profit income on non-performing financial assets from retained profits to a non-distributable reserve in both the audited financial statements and prudential returns.

18 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows for the years ended 31 December comprise the following amounts:

	2020	2019
Cash in hand (Note 4)	5,657	5,081
Balances placed with AMBD (Note 4)	21,390	22,034
Balances with banks and other financial institutions (Note 4)	46,739	15,320
	73,786	42,435

19 Net interest income

This account for the years ended 31 December consists of:

	2020	2019
Interest income		
Loans and advances to customers	2,936	2,929
Deposits and placement with other banks	851	1,107
Government sukuk	62	169
Group balances receivable	5	34
Total interest income	3,854	4,239
Interest expense		
Deposits from customers	892	954
Group balances payable	17	130
Total interest expense	909	1,084
Net interest income	2,945	3,155

20 Fee and commission income

This account for the years ended 31 December consists of:

	2020	2019
Fee income		
Commission	261	225
Service charges	74	72
Fees on loans and advances	70	62
Guarantee fees	6	28
Others	2	3
Total fee income	413	390

21 Other income

This account for the years ended 31 December consists of:

	2020	2019
Net foreign exchange gain	411	254

22 Personnel expenses

This account for the years ended 31 December consists of:

	2020	2019
Wages and salaries	957	884
Allowance and bonuses	341	295
Contributions to defined contribution plan	147	135
Others	79	87
	1,524	1,401

Key management personnel's compensation is disclosed in Note 29.

23 Other expenses

This account for the years ended 31 December consists of:

	2020	2019
Electronic data processing expenses	198	214
Legal and professional fees	136	64
License fees	100	100
Advertisement and publicity	14	13
Others	397	434
	845	825

Others pertain to expenses incurred for utilities, security services, office supplies, cable and telephone charges, and transportation expenses.

24 Allowance for credit losses on financial assets, net

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

	2020	2019
Loans and advances to customers		
Net allowance provided/(reversal)	169	(87)
Bad debts recovered	(223)	(29)
Bad debts written off	184	138
Other financial assets	20	-
	150	22

25 Tax expense

The tax charge recognised in profit or loss for the years ended 31 December comprises the following:

	2020	2019
Current year	123	106
Under provision in respect of prior financial year	25	-
	148	106

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 for the years ended 31 December due to the following:

Reconciliation of effective tax rate	2020	2019
Profit before taxation	957	1,241
Tax calculated at a tax rate of 18.5%	177	230
Non-deductible expenses	17	5
Non-taxable income	(20)	(38)
Tax incentives	(51)	(91)
	123	106

26 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.

	2020	2019
Contingencies		
Letters of credit	406	211
Guarantees and bonds	1,929	2,195
Others	-	883
	2,335	3,289
Commitments		
Undrawn credit lines	9,886	7,940
	12,221	11,229

27 Accounting classifications and fair values

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

31 December 2020

Financial assets	FVTPL	Designated at FVTPL	FVOCI	At amortised cost	Total
Cash and short-term funds	-	-	-	104,709	104,709
Balances with AMBD	-	-	-	7,868	7,868
Group balances receivable	-	-	-	3,702	3,702
Government sukuk	-	-	-	10,000	10,000
Loans and advances to customers	-	-	-	56,371	56,371
Other assets*	-	-	-	1,506	1,506
	-	-	-	184,156	184,156

Financial liabilities	FVTPL	Designated at FVTPL	At amortised cost	Total
Deposits from customers	-	-	123,915	123,915
Deposits from banks and other financial institutions	-	-	765	765
Group balances payable	-	-	16,384	16,384
Lease liability	-	-	209	209
Other liabilities	-	-	930	930
	-	-	142,203	142,203

31 December 2019

Financial assets	FVTPL	Designated at FVTPL	FVOCI	At amortised cost	Total
Cash and short-term funds	-	-	-	86,185	86,185
Balances with AMBD	-	-	-	6,610	6,610
Group balances receivable	-	-	-	3,622	3,622
Government sukuk	-	-	-	10,000	10,000
Loans and advances to customers	-	-	-	54,914	54,914
Other assets*	-	-	-	1,324	1,324
	-	-	-	162,655	162,655

Financial liabilities	FVTPL	Designated at FVTPL	At amortised cost	Total
Deposits from customers	-	-	104,862	104,862
Deposits from banks and other financial institutions	-	-	678	678
Group balances payable	-	-	15,088	15,088
Lease liability	-	-	343	343
Other liabilities	-	-	799	799
	-	-	121,770	121,770

** Excludes prepayments*

Fair value hierarchy

For disclosure purposes, the level in the hierarchy within which the instruments are classified in its entirety is based on the lowest level input that is significant to the position's fair value measurements:

- Level 1 - Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 - Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

There are no financial assets measured at fair value in the statement of financial position as at 31 December 2020 and 2019. There are also no non-financial assets or liabilities that would require disclosure of fair value hierarchy as at 31 December 2020 and 2019.

Determination of fair value

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

Loans and advances

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

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

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

Deposits by customers

Deposits 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 values of deposits by customers approximate fair values.

Other financial assets and liabilities

At the reporting date, the carrying amounts of the other financial assets and liabilities (including cash and cash equivalents, balances with AMBD, group balances receivable, government sukuk, investment securities, other assets, deposits from banks and other financial institutions, group balances payable, lease liability, and other liabilities) approximate their fair values because of the short periods to maturity or the effect of discounting is immaterial.

28 Current and non-current assets and liabilities

31 December 2020

	Current	Non-current	Total
ASSETS			
Cash and short-term funds	104,709	-	104,709
Balances with AMBD	7,868	-	7,868
Group balances receivable	3,702	-	3,702
Government sukuk	10,000	-	10,000
Loans and advances to customers	6,597	49,774	56,371
Right-of-use asset	-	204	204
Property and equipment	-	181	181
Other assets	1,549	71	1,620
Total assets	134,425	50,230	184,655
LIABILITIES AND HEAD OFFICE ACCOUNT			
Deposits from customers	123,792	123	123,915
Deposits from banks and other financial institutions	765	-	765
Group balances payable	16,384	-	16,384
Other liabilities	930	-	930
Provision for taxation	123	-	123
Lease liability	134	75	209
Head office account	-	42,329	42,329
Total liabilities and head office account	142,128	42,527	184,655

31 December 2019	Current	Non-current	Total
ASSETS			
Cash and short-term funds	86,185	-	86,185
Balances with AMBD	6,610	-	6,610
Group balances receivable	3,622	-	3,622
Government sukuk	10,000	-	10,000
Loans and advances to customers	6,728	48,186	54,914
Right-of-use asset	-	340	340
Property and equipment	-	259	259
Other assets	1,423	69	1,492
Total assets	114,568	48,854	163,422
LIABILITIES AND HEAD OFFICE ACCOUNT			
Deposits from customers	104,745	117	104,862
Deposits from banks and other financial institutions	678	-	678
Group balances payable	15,088	-	15,088
Other liabilities	799	-	799
Provision for taxation	132	-	132
Lease liability	133	210	343
Head office account	-	41,520	41,520
Total liabilities and head office account	121,575	41,847	163,422

29 Related party transactions

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

In the normal course of its banking business, the Branch has carried out transactions with related parties, principally the Head Office which is the ultimate controlling party of the Branch and with other branches and related corporations on terms agreed between the parties. Material related party transactions are separately disclosed in Notes 6 and 14.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation for the years ended 31 December comprised the following:

	2020	2019
Short-term employee benefits	206	195

Remuneration paid to key management personnel includes salary, bonus and other benefits-in-kind.

Key management personnel transactions

As at 31 December 2020 and 2019, there were no transactions or outstanding balances related to key management personnel.

30 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.

Capital adequacy ratios ("CAR")

The Branch is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by AMBD. The Branch was in compliance with all prescribed capital ratios throughout the year.

	2020	2019
Regulatory capital		
Core capital (Tier I capital)	42,329	41,520
Supplementary capital (Tier II capital)	30	79
Adjustment to Tier II capital	-	-
Total capital base	42,359	41,599
Total risk-weighted amount		
Risk weighted amount for credit risk	75,364	67,260
Risk weighted amount for operational risk	7,136	7,143
Risk weighted amount for market risk	153	500
Total risk-weighted amount	82,653	74,903
	%	%
Capital ratios		
Core capital (Tier 1) ratio	51.21	55.43
Total capital ratio	51.25	55.54

31 Financial risk management

The RHB Group (the "Group") takes proactive measures to manage the various risks posed by the rapidly changing business environment. A dedicated Board Risk Committee provides risk oversight of all material risks across the Group. At the management level, the Group Capital and Risk Committee and the Group Assets and Liabilities Committee ensure all key risks are managed in line with their respective Terms of Reference.

Group risk management framework

The Group Risk Management Framework governs the management of risks in the Group as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Bank adopts and is guided by the Group Risk Management Framework in administration and implementation of its risk management activities.

Key features of the framework include the following:

Risk Governance and Oversight

The Board of Directors sits at the apex of the risk governance structure and is ultimately responsible for the Group's/respective entities' risk management strategy, appetite, framework and oversight of risk management activities.

The Board of Directors (Board), through the respective risk committees and the Group Risk and Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The Board Risk Committee (BRC) is the principal Board Committee that provides oversight over the risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision and the day-to-day management of enterprise risks and capital matters is delegated to the Group Capital and Risk Committee (GCRC) comprising senior management of the Group and which reports to the relevant board committees and the Group Management Committee. The Group Asset and Liability Committee (Group ALCO) oversees market risk, liquidity risk and balance sheet management.

Roles and Responsibilities for the Risk Management Function

The Group Chief Risk Officer (GCRO) of the Group is responsible for the risk management function. The incumbent is independent from the business units and does not have any management or financial responsibility in respect of any business lines or revenue-generating functions.

GCRO reports directly to the Group Managing Director and has unimpeded access to the Board of Directors and the Board Level Risk Committees. The main roles and responsibilities of GCRO are as follows:

- Facilitating the setting of the strategic direction and overall policy on management and control of risks of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing proactive, balanced and risk attuned culture within the Group; and
- Advising senior management, Management Level Committees, Board Level Risk Committees and Board of Directors of the Group's entities on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

Risk Management Department of RHB Bank Brunei Operation's main function is to assess and manage the enterprise risk and liaise with regulators in Brunei. The team is supported by the risk management function from the Group, who specialise in the respective risks and responsible for the active oversight of Group-wide functional risk management, such as Group Credit Risk Management, Group Operational Risk Management, Group Technology and Cyber Risk Management, Group Shariah Risk Management, Group Risk Operations, Group Credit Management and Insurance Risk Management.

Risk Appetite

The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group and each entity's overall business objectives and desired risk profile. It describes the types and level of risks the Group is prepared to accept in delivering its business strategies and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

The alignment of the Group's business strategy with its risk strategy, and vice-versa is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk Culture

The Group subscribes to the principle of 'Risk and Compliance is Everyone's Responsibility' and risk management is managed via a 'three lines of defence' model. Business/functional units of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risk.

Risk Management Process

The risk management process identifies, assesses and measures, controls, monitors and reports/analyses risk. This ensures that risk exposures are adequately managed and that the expected return compensates for the risk taken.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and proactive and timely identification of risk within the Group's business operations. This ensures that risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Assessment and Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency
- Controlling: Risks identified during the risk identification process must be adequately managed and mitigated to control the risk of loss. This is also to ensure risk exposures are managed within the Group's or entity's risk appetite.
- Monitoring: Effective monitoring process ensures that the Group is aware of the condition of its exposures vis-à-vis its approved appetite and to facilitate early identification of potential problem on a timely basis by using continuous and on-going monitoring of risk exposures and risk control/mitigation measures.
- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

In addition, risk management seeks to ensure that risk decisions are consistent with strategic business objectives and within the risk appetite.

Risk Documentation

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are effected consistently across the Group.

Risk Infrastructure

The Group has organised its resources and talents into specific functions, and invested in the technology, including data management to support the Group's and the Bank's risk management activities.

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

(i) Credit risk

Credit risk arises as a result of customers' or counterparties' failure or unwillingness to fulfil their financial and contractual obligations as and when they arise.

Corporate and institutional credit risks are assessed by business units and approved by an independent party (Group Credit Management). Reviews are conducted at least once a year. A post-approval evaluation of credit facilities is emplaced and performed by the Credit Review team, with checks to ensure that credit facilities are properly appraised and approved. In addition, credit policies and product guidelines are continuously enhanced to ensure that they remain relevant in managing credit risks. A dedicated Credit Policy & Portfolio Management team designs strategies to achieve a desired ideal portfolio risk tolerance level.

The maximum exposure to credit risk is limited to the amounts on the statement of financial position, without taking into account the fair value of any collateral or master netting agreements.

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 to cover credit risk associated with the respective financial asset. The main type of collateral taken by the Branch is cash and properties. Policies and processes are in place to monitor collateral concentration.

Credit Exposure by Stage

Financial assets are classified into three stages as below:

Stages	Description
Stage 1: 12 months ECL - not credit impaired	For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.
Stage 2: Lifetime ECL - not credit impaired	For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.
Stage 3: Lifetime ECL - credit impaired	Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

Write-off policy

The Branch write off financial assets, in whole or in part when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

(i) Ceasing enforcement activity, and

(ii) Where the Branch's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

A write-off constitutes a derecognition event. The Branch may apply enforcement activities to financial assets written off. Recoveries resulting from the Branch's enforcement activities will be written back as bad debts recovered in the statement of total comprehensive income.

Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position date is the amount on the statement of financial position as well as off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Branch would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

The table below shows the credit exposure of the Branch as at 31 December that are subject to impairment:

	2020	2019
Credit risk exposure relating to on-balance sheet assets:		
Short term funds (exclude cash in hand)	99,052	81,104
Balances with AMBD	7,868	6,610
Group balances receivable	3,702	3,622
Government sukuk	10,000	10,000
Loans and advances to customers	56,371	54,914
Other financial assets	1,506	1,324
	178,499	157,574
Credit risk exposure relating to off-balance sheet items:		
- Commitments and contingencies	12,221	11,229
Total maximum credit risk exposure that are subject to impairment	190,720	168,803

Financial assets - credit quality

Loans and advances to customers analysed by stages as at 31 December 2020:

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Balance as at 1 January 2020	51,639	1,380	2,118	55,137
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12-month ECL (Stage 1)	1,160	(1,150)	(10)	-
Transferred to Lifetime ECL not credit impaired (Stage 2)	(93)	93	-	-
Transferred to Lifetime ECL credit impaired (Stage 3)	(404)	(41)	445	-
Origination	6,318	-	213	6,531
Derecognition	(4,258)	(65)	(403)	(4,726)
Amount written-off	-	-	(196)	(196)
Gross loans and advances	54,362	217	2,167	56,746
Allowance for credit losses	(21)	(9)	(345)	(375)
Balances as at 31 December 2020	54,341	208	1,822	56,371

Loans and advances to customers analysed by stages as at 31 December 2019:

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Balance as at 1 January 2019	48,321	1,223	5,718	55,262
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12-month ECL (Stage 1)	1,425	(358)	(1,067)	-
Transferred to Lifetime ECL not credit impaired (Stage 2)	(777)	963	(186)	-
Transferred to Lifetime ECL credit impaired (Stage 3)	(293)	(81)	374	-
Origination	5,556	-	-	5,556
Derecognition	(2,593)	(367)	(2,583)	(5,543)
Amount written-off	-	-	(138)	(138)
Gross loans and advances	51,639	1,380	2,118	55,137
Allowance for credit losses	(61)	(18)	(144)	(223)
Balances as at 31 December 2019	51,578	1,362	1,974	54,914

Movement in allowance for credit losses included within loans and advances to customers is as follows:

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Loans and advances to customers				
Balance as at 1 January 2020	61	18	144	223
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12-month ECL (Stage 1)	14	(14)	-	-
Transferred to Lifetime ECL not credit impaired (Stage 2)	-	-	-	-
Transferred to Lifetime ECL credit impaired (Stage 3)	-	-	-	-
	75	4	144	223
Allowance made/(reversal) during the financial year	(51)	6	239	194
Bad debt written-off	-	-	(17)	(17)
Derecognition	(3)	(1)	(21)	(25)
Balances as at 31 December 2020	21	9	345	375

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Loans and advances to customers				
Balance as at 1 January 2019	38	32	268	338
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12-month ECL (Stage 1)	109	(2)	(107)	-
Transferred to Lifetime ECL not credit impaired (Stage 2)	-	12	(12)	-
Transferred to Lifetime ECL credit impaired (Stage 3)	-	(2)	2	-
	147	40	151	338
Allowance made/(reversal) during the financial year	(85)	(19)	22	(82)
Bad debt written-off	-	-	(28)	(28)
Derecognition	(1)	(3)	(1)	(5)
Balances as at 31 December 2019	61	18	144	223

Credit risk exposure is also analysed by industry in respect of the Branch's financial assets, including off-balance sheet financial instruments as set out below:

31 December 2020	Loans and advances	Letters of credit, guarantees and bonds	Undrawn credit lines
By industry sector:			
Agriculture	228	21	38
Manufacturing	309	5	136
Transportation	216	120	-
Traders	12,203	1,122	7,554
Services	4,012	1,013	881
Construction and property financing	33,650	17	1,005
Personal and consumption loans	3,264	-	267
Tourism	2,864	37	5
Total gross loans and advances	56,746	2,335	9,886
Less: Allowance for credit losses	(375)	-	-
Total net loans and advances	56,371	2,335	9,886

31 December 2019	Loans and advances	Letters of credit, guarantees and bonds	Undrawn credit lines
By industry sector:			
Agriculture	229	47	60
Manufacturing	373	-	55
Transportation	83	21	43
Traders	11,929	2,266	5,302
Services	4,070	948	607
Construction and property financing	33,917	7	1,541
Personal and consumption loans	1,700	-	265
Tourism	2,836	-	67
Total gross loans and advances	55,137	3,289	7,940
Less: Allowance for credit losses	(223)	-	-
Total net loans and advances	54,914	3,289	7,940

31 December 2020	Loans and advances	Letters of credit, guarantees and bonds	Undrawn credit lines
By customer type:			
Commercial	16,684	2,331	7,202
Retail	40,062	4	2,684
	56,746	2,335	9,886
Less: Allowance for credit losses	(375)	-	-
	56,371	2,335	9,886

31 December 2019	Loans and advances	Letters of credit, guarantees and bonds	Undrawn credit lines
By customer type:			
Commercial	16,345	3,286	5,286
Retail	38,792	3	2,654
	55,137	3,289	7,940
Less: Allowance for credit losses	(223)	-	-
	54,914	3,289	7,940

Collateral accepted as security for loans and advances

Collaterals and other security enhancements held against loans and advances as at 31 December are as follows:

	2020	2019
Secured loans and advances:		
Mortgage of properties	50,659	50,000
Cash	4,844	3,864
Guarantees	1,008	1,273
Unsecured loans and advances:		
Mortgage of properties	235	-
Total loans and advances	56,746	55,137
Less: Allowance for credit losses	(375)	(223)
	56,371	54,914

Security coverage of impaired loans and advances:

	2020	2019
Secured by cash / mortgage of properties	2,167	2,253

(ii) Market risk

Market risk is the risk of financial loss where the value of the Branch's assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.

As at 31 December 2020 and 2019, the Branch is not exposed to significant market risk except on its government sukuk.

Foreign exchange risk

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

The Branch's foreign exchange exposures comprise non-trading foreign exchange exposure principally derived from interbranch nostro accounts. As the majority of foreign exchange exposure is to Singapore Dollar (SGD), the Branch is not exposed to significant foreign exchange risk due to the Currency Interchangeability Agreement between Singapore and Brunei which interchange the two currencies at par.

(iii) Interest rate risk

Interest rate risk is the risk to both earnings and capital arising from adverse movement in interest rates.

At the reporting date, the interest rate profile of the Branch's interest-bearing financial instruments is as follows:

	2020	2019
Fixed-rate assets	87,717	68,750
Floating-rate assets	56,746	55,137
Fixed-rate liabilities	(96,173)	(82,182)
	48,290	41,705

Interest rate sensitivity analysis

The Branch does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting dates would not affect profit or loss for fixed rate financial instruments.

At the reporting date, an increase of 100 basis points in interest rates would have increased profit or loss by B$567 (2019 - B$551) for variable rate financial instruments. A decrease of 100 basis points in interest rates would have the opposite effect on profit or loss. This analysis assumes that all other variables remain constant.

(iv) Liquidity risk

Liquidity risk is the inability of the Branch to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

Liquidity risk is addressed through various measurement techniques such as liquidity gap analysis, early warning signals and stress testing that are controlled using approved limits and benchmarks. Periodic reports are presented to various operating and management level, including the Assets Liability Committee, Risk Management Committee and Board of Directors. In addition, the Branch reviews and enhances its Contingency Funding Plan to address probable circumstances that could cause liquidity distress to the Branch.

The following table shows cash flow analysis of the Branch's financial assets and 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.

31 December 2020	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Assets					
Cash and short-term funds	73,786	13,800	17,123	-	104,709
Balances with AMBD	7,868	-	-	-	7,868
Group balances receivables	3,702	-	-	-	3,702
Government sukuk	10,000	-	-	-	10,000
Loans and advances to customers	5,413	943	241	49,774	56,371
Other assets	1,419	60	27	-	1,506
Total assets	102,188	14,803	17,391	49,774	184,156
Liabilities					
Deposits from customers	54,415	19,428	35,111	14,961	123,915
Deposits from banks and other financial institutions	765	-	-	-	765
Group balances payable	16,384	-	-	-	16,384
Other liabilities	825	68	37	-	930
Lease liability	34	34	66	75	209
Total liabilities	72,423	19,530	35,214	15,036	142,203

31 December 2019	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Assets					
Cash and short-term funds	65,945	16,000	4,240	-	86,185
Balances with AMBD	6,610	-	-	-	6,610
Group balances receivables	3,622	-	-	-	3,622
Government sukuk	10,000	-	-	-	10,000
Loans and advances to customers	5,402	1,223	103	48,186	54,914
Other assets	1,171	68	16	69	1,324
Total assets	92,750	17,291	4,359	48,255	162,655
Liabilities					
Deposits from customers	57,239	21,051	26,572	-	104,862
Deposits from banks and other financial institutions	678	-	-	-	678
Group balances payable	15,088	-	-	-	15,088
Other liabilities	650	81	68	-	799
Lease liability	33	33	67	210	343
Total liabilities	73,688	21,165	26,707	210	121,770

32 Significant event

Impact of COVID-19 pandemic

During the first quarter of 2020, local and worldwide social and economic activities became severely affected by the spread and threat of COVID-19.

In March 2020, the Government of Brunei declared a strict nationwide community lockdown due to the increasing number of COVID 19 cases in the country. The lockdown mandated the temporary closure of non-essential business establishments and strict home quarantine which resulted in the slowdown of the economy. While banks are authorised to operate, the Branch activated the skeletal operations working set-up, with 50% working from the Branch, while 50% working from home.

Effective June 2020, the Government declared more flexible protocols and allowed reopening of most businesses, although at a reduced capacity, and still under strict health protocols. Measures are implemented to protect the health and safety of the people. With this transition in June 2020, the Branch's operations have been back to 100%.

In a collective effort to assist and reduce the financial burden of all customers (businesses and individuals) following the COVID-19 pandemic, AMBD released a notice on 15 April 2020 for a temporary regulatory relief. Temporary deferment of principal was extended to the Branch's customers.

The temporary regulatory relief also allowed waiver of selected fees and charges and revision in interest rates.

The Branch has considered the implications of the pandemic to its results of operations to the extent of the existing conditions as at reporting date. The Branch continues to make further assessment in the future considering that the COVID-19 pandemic is an evolving situation with continued uncertainties.

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RHB Bank Berhad

Brunei Darussalam Branch

Pillar 3 Disclosures

31st December 2020

RHB BANK BERHAD

BRUNI DARUSSALAM BRANCH

PILLAR 3 DISCLOSURES AS AT 31 DECEMBER 2020

Table of content

Section	Item	Page(s)
	Table of content	
	List of tables	
1.0	Scope of Application	1
2.0	Capital	2
3.0	Risk Management	3-8
4.0	Credit Risk	9-24
5.0	Market Risk	25
6.0	Operational Risk	26-30
7.0	Interest Rate Risk in the Banking Book	31
8.0	Reputational Risk	32

1.0 Disclosure A: Scope of Application

This document covers the quantitative information as at 31 December 2020 with comparative quantitative information of the preceding financial year as at 31 December 2019. The annual disclosure prepared in compliance with the requirements set forth in AMBD Notification No.BU/N-3/2018/53 dated 2nd January 2018.

RHB Bank Berhad Brunei Darussalam branch (“the Branch”) is a branch office of RHB Bank Berhad and is part of RHB Banking Group with its Head Office in Malaysia. In operating the business, RHB Bank Berhad Brunei Darussalam branch is guided by the Group Policies, Bank Negara Malaysia’s Guidelines and AMBD’s Guidelines, whichever is more stringent.

2.0 CAPITAL

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.

	2020	2019
	B$'000	B$'000
Capital		
Core capital (Tier I capital)	42,329	41,520
Supplementary capital (Tier II capital)	30	79
Adjustment to Tier II capital	-	-
Total capital base	42,359	41,599
Total risk-weighted amount		
Risk weighted amount for credit risk	75,364	67,260
Risk weighted amount for operational risk	7,136	7,143
Risk weighted amount for market risk	153	500
Total risk-weighted amount	82,653	74,903

Capital adequacy ratios ("CAR")

The Branch is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by AMBD. The Branch was in compliance with all prescribed capital ratios throughout the year.

Capital Adequacy Ratios

	31.12.2020	31.12.2019
Core Capital (Tier 1) ratio	51.21%	55.43%
Total Capital ratio	51.25%	55.54%

3.0 RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, reputational, strategic and cross-border, as well as other forms of inherent to its strategy, product range and geographical coverage.

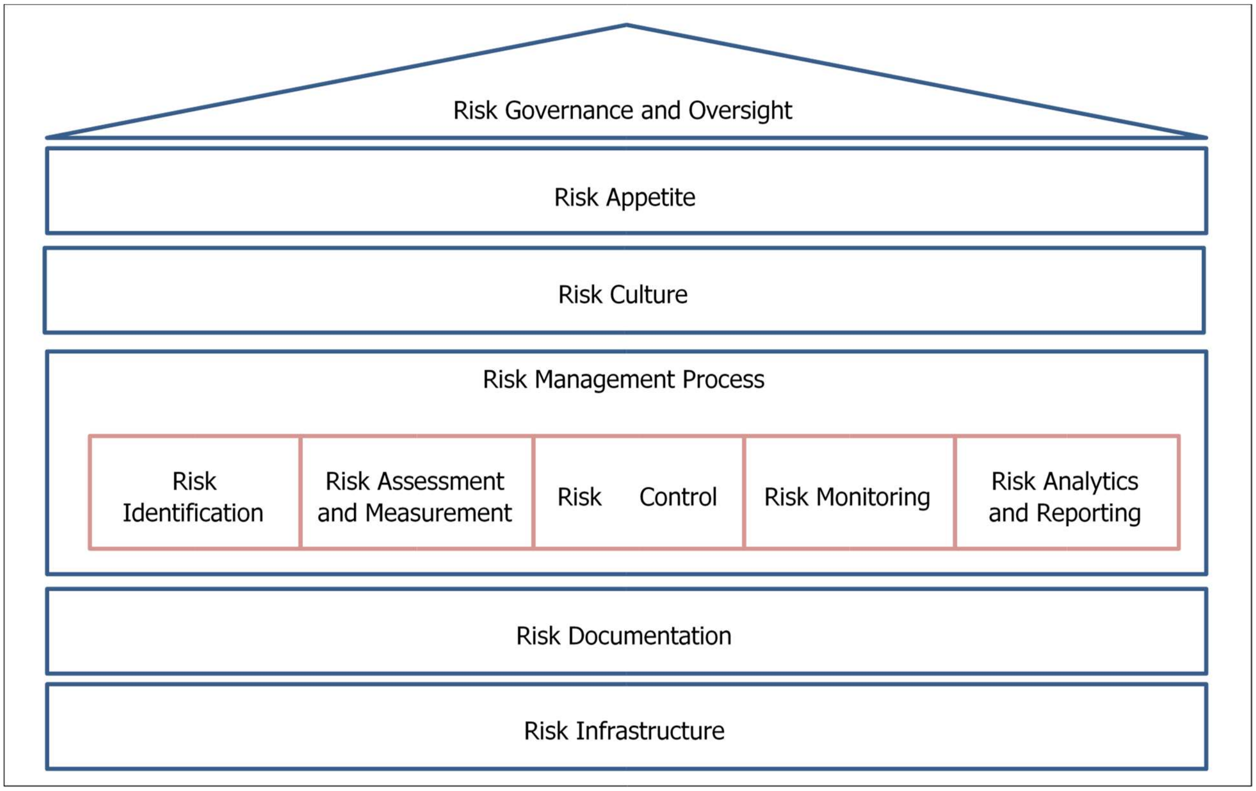
Effective risk management is fundamental to drive sustainable growth and shareholder value, while sustaining competitive advantage, and is thus part of the proactive risk management of the Bank.

The Group's Risk Management Framework governs the management of risks in the RHB Banking Group (the Group) inclusive of RHB Bank Berhad Brunei Darussalam Branch as follow:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimization and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realized through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimize risk-adjusted returns.

The Bank adopts and is guided by the Group Risk Management Framework in administration and implementation of its risk management activities.

The Group Risk Management Framework is represented in the following diagram:


Risk Governance and Oversight
Risk Appetite
Risk Culture
Risk Management Process
Risk Identification
Risk Assessment and Measurement
Risk Control
Risk Monitoring
Risk Analytics and Reporting
Risk Documentation
Risk Infrastructure

Key features of the framework are :

Risk Governance and Oversight

The Board of Directors sits at the apex of the risk governance structure and is ultimately responsible for the Group's/respective entities' risk management strategy, appetite, framework and oversight of risk management activities.

The Board of Directors (Board), through the respective risk committees and the Group Risk and Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The Board Risk Committee (BRC) is the principal Board Committee that provides oversight over the risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision and the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee (GCRC) comprising senior management of the Group and which reports to the relevant board committees and the Group Management Committee. The Group Asset and Liability Committee (Group ALCO) oversees market risk, liquidity risk and balance sheet management.

Roles and Responsibilities for the risk management function:

The Group Chief Risk Officer (GCRO) of the Group is responsible for the risk management function. The incumbent is independent from the business units and does not have any management or financial responsibility in respect of any business lines or revenue-generating functions.

GCRO reports directly to the Group Managing Director and has unimpeded access to the Board of Directors and the Board Level Risk Committees. The main roles and responsibilities of GCRO are as follows:

- Facilitating the setting of the strategic direction and overall policy on management and control of risks of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing proactive, balanced and risk attuned culture within the Group; and
- Advising senior management, Management Level Committees, Board Level Risk Committees and Board of Directors of the Group's entities on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

Risk Management Department of RHB Bank Brunei Operation's main function is to assess and manage the enterprise risk and liaise with regulators in Brunei. The team is supported by the risk management function from the Group, who specialize in the respective risks and responsible for the active oversight of Group-wide functional risk management, such as Group Credit Risk Management, Group Operational Risk Management, Group Technology and Cyber Risk Management, Group Shariah Risk Management, Group Risk Operations, Group Credit Management and Insurance Risk Management.

Risk Appetite

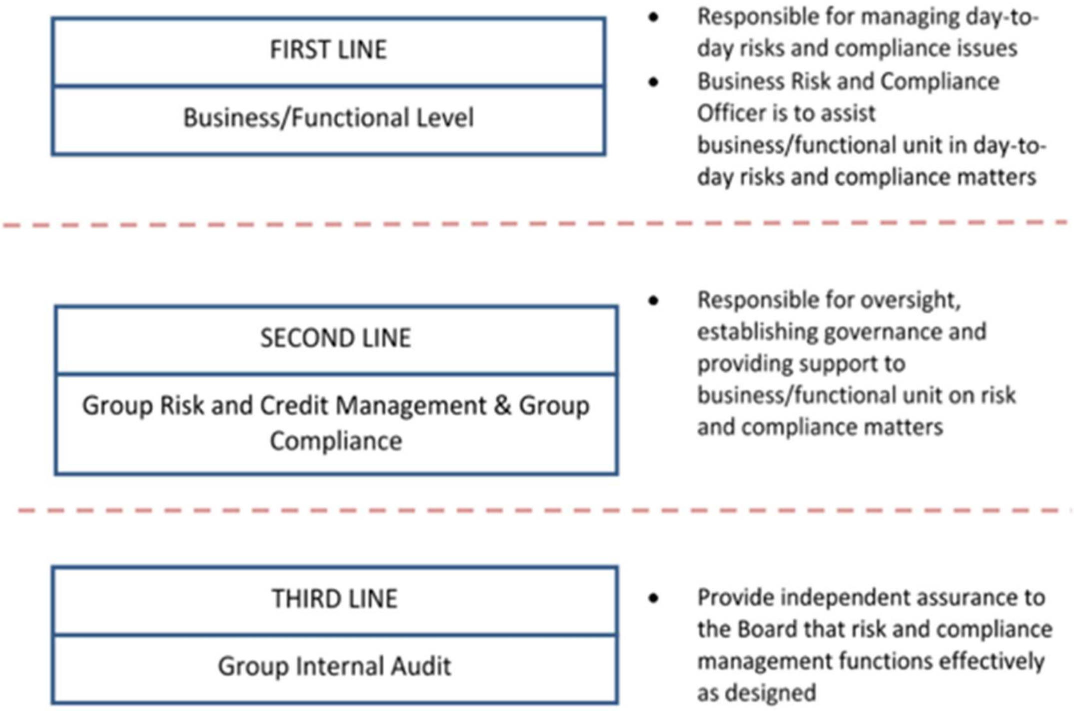
The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group and each entity's overall business objectives and desired risk profile. It describes the types and level of risks the Group is prepared to accept in delivering its business strategies, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

The alignment of the Group's business strategy with its risk strategy, and vice-versa is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk Culture

The Group subscribes to the principle of 'Risk and Compliance is Everyone's Responsibility' and risk management is managed via a 'three lines of defence' model. Business/functional units of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risk.

The approach is based on the 'three lines of defence' model as depicted below:



FIRST LINE

Business/Functional Level

- Responsible for managing day-to-day risks and compliance issues
- Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters

SECOND LINE

Group Risk and Credit Management & Group Compliance

- Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters

THIRD LINE

Group Internal Audit

- Provide independent assurance to the Board that risk and compliance management functions effectively as designed

Risk Management Process

The risk management process identifies, assesses and measures, controls, monitors and reports/analyses risk. This ensures that risk exposures are adequately managed and that the expected return compensates for the risk taken.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and proactive and timely identification of risk within the Group's business operations. This ensures that risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Assessment and Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling: Risks identified during the risk identification process must be adequately managed and mitigated to control the risk of loss. This is also to ensure risk exposures are managed within the Group's or entity's risk appetite.

- Monitoring: Effective monitoring process ensures that the Group is aware of the condition of its exposures vis-à-vis its approved appetite and to facilitate early identification of potential problem on a timely basis by using continuous and on-going monitoring of risk exposures and risk control/mitigation measures.
- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

In addition, risk management seeks to ensure that risk decisions are consistent with strategic business objectives and within the risk appetite.

Risk Documentation

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group.

Risk Infrastructure

The Group has organised its resources and talents into specific functions, and invested in the technology, including data management to support the Group's and the Bank's risk management activities.

4.0 CREDIT RISK

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contracture obligations in accordance with the agreed terms. It stems primarily from the Group's lending/financing, trade finance and its placement, underwritings, investment, hedging and trading activities from both on- and off-balance sheet transactions. Credit risk does not happen in isolation as certain risk event (e.g. fluctuation of interest rate and FX) may give rise to both market and credit risks.

(a) Qualitative Disclosures

Impairment

IFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ('ECL'), replacing the incurred loss methodology model under IAS 39, for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn loan commitments.

General approach

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12months will be recognized.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognized.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognized.

Generally, all financial assets that are 90 days past due or more are classified under Stage 3.

The Bank consider the following as constituting an event of default:

(1) Quantitative criteria
- The borrower is past due more than 90 days on any material credit obligation to the Bank

(2) Qualitative criteria
- The borrower is past due more than 90 days on any material credit obligation to the Branch;
- Legal action has been initiated by the Group and the Bank for recovery purposes:
- Borrower is bankrupt;
- Borrower has been assigned to external collection agency: and
- When there is modification referring to any changes in the contractual cash flow of loan due to credit deterioration reasons.

Credit Risk Management Approach

Credit risk management is conducted in a holistic manner. Credit underwriting standards are articulated in an approved Group credit policy and guidelines which is developed for the assurance of asset quality that us in line with the Group's risk appetite. Industry best practices are instilled in the continual updating of the Group credit policy and guidelines including independent assessment of credit proposals, assignment of rating and adoption of multi-tiered delegated lending authorities spanning from individuals to credit approving committees.

Group Credit Committee ("GCC") is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits. The Board Credit Committee's (BCC) main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC (ii) overseeing the management of impaired and high-risk accounts and (iii) approving credit transactions to connected parties up to the defined threshold limits, (iv) approving Policy Loans/Financing.

The Bank also ensure that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit evaluator in Head Office and decided upon by the delegated lending/financing authority/relevant committees. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Loans/financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.

The analysis of any single large exposure and group of exposures is conducted regularly. The SBUs undertake regular account updates, monitoring and management of these exposures.

Credit reviews and rating are conducted on the credit exposures at least annually. Specific loans/financing may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Bank believes that heightened risk exists in a particular industry, or the borrower/customer exhibits early warning signals such as default on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Regular risk reporting is made to the Bank management committee (MANCO), and asset management committee (AMT). These reports include various credit risk aspects such as portfolio quality, and concentration risk exposures by industry and customer type. Such reporting allows senior management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision-making. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

(b) Quantitative Disclosures

Credit risk exposure by industry in respect of the Bank's financial assets, including off-balance sheet financial instruments as set out below:

	Loans and advances	Letters of credit, acceptances, guarantees and bonds	Undrawn credit lines
	B$'000	B$'000	B$'000
2020			
By industry sector:			
Agriculture	228	21	38
Manufacturing	309	5	136
Transportation	216	120	-
Traders	12,203	1,122	7,554
Services	4,012	1,013	881
Construction and property financing	33,650	17	1,005
Personal and consumption loans	3,264	-	267
Tourism	2,864	37	5
Total gross loans and advances	56,746	2,335	9,886
Expected credit losses	(375)	-	-
Total net loans and advances	56,371	2,335	9,886

	Loans and advances	Letters of credit, acceptances, guarantees and bonds	Undrawn credit lines
2019			
	B$'000	**B$'000**	**B$'000**
By industry sector:			
Agriculture	229	47	60
Manufacturing	373	-	55
Transportation	83	21	43
Traders	11,929	2,266	5,302
Services	4,070	948	607
Construction and property financing	33,917	7	1,541
Personal and consumption loans	1,700	-	265
Tourism	2,836	-	67
Total gross loans and advances	55,137	3,289	7,940
Expected credit losses	(223)	-	-
Total net loans and advances	54,914	3,289	7,940

Credit Risk exposure by Geographical Distribution

	2020	**2019**
	B$'000	**B$'000**
Brunei Darussalam	56,746	55,137
Other Asia	–	–
	56,746	55,137

Impairment Credit Risk exposure by Geographical Distribution

	2020	**2019**
	B$'000	**B$'000**
Brunei Darussalam	2,042	2,118
Other Asia	–	–
	2,042	2,118

The following table shows cash flow analysis of the Bank's financial liabilities by remaining contractual maturities on an undiscounted basis. Actual maturity dates may differ from contractual maturity dates due to behavior patterns such as early withdrawal of deposits or loans.

Financial assets and liabilities by remaining contractual maturities as at 31 December 2020

	Less than 3 months B$'000	3 to 6 months B$'000	6 to 12 months B$'000	Over 1 years B$'000	Total B$'000
2020					
Assets					
Cash and short-term funds	69,424	13,800	17,123	–	100,347
Balances with AMBD	7,868	–	–	–	7,868
Group balances receivables	8,064	–	–	–	8,064
Government sukuk	10,000	–	–	–	10,000
Loans and advances to customers	5,413	943	241	49,774	56,371
Other assets	1,419	60	27	–	1,506
Total assets	102,188	14,803	17,391	49,774	184,156
Liabilities					
Deposits from customers	54,415	19,428	35,111	14,961	123,915
Deposits from banks and other financial institutions	765	–	–	–	765
Group balances payable	16,384	–	–	–	16,384
Other liabilities	825	68	37	–	930
Lease liabilities	34	34	66	75	209
Total liabilities	72,423	19,530	35,214	15,036	142,203

Financial assets and liabilities by remaining contractual maturities as at 31 December 2019

2019	Less than 3 months B$'000	3 to 6 months B$'000	6 to 12 months B$'000	Over 1 years B$'000	Total B$'000
Assets					
Cash and short-term funds	65,945	16,000	4,240	–	86,185
Balances with AMBD	6,610	–	–	–	6,610
Group balances receivables	3,622	–	–	–	3,622
Government sukuk	10,000	–	–	–	10,000
Loans and advances to customers	5,402	1,223	103	48,186	54,914
Other assets	1,171	68	16	69	1,324
Total assets	92,750	17,291	4,359	48,255	162,655
Liabilities					
Deposits from customers	57,239	21,051	26,572	–	104,862
Deposits from banks and other financial institutions	678	–	–	–	678
Group balances payable	15,088	–	–	–	15,088
Other liabilities	650	81	68	–	799
Lease liabilities	33	33	67	210	343
Total liabilities	73,688	21,165	26,707	210	121,770

Movement in impairment allowance included within loans and advances to banks, customers and bills receivable is as follows:

Reconciliation of changes to Loans/ Financing Impairment Allowances as at 31 December 2020

	12-month ECL (Stage 1) B$'000	Lifetime ECL not credit impaired (Stage 2) B$'000	Lifetime ECL credit impaired (Stage 3) B$'000	Total B$'000
Loans and advances to customers				
Balance as at 1 January 2020	51,639	1,380	2,118	55,137
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12-month ECL (Stage 1)	1,160	(1,150)	(10)	–
Transferred to Lifetime ECL not credit impaired (Stage 2)	(93)	93	–	–
Transferred to Lifetime ECL credit impaired (Stage 3)	(404)	(41)	445	–
	663	(1,098)	435	–
Purchase and origination	6,318	–	213	6,531
Derecognition	(4,258)	(65)	(403)	(4,726)
Amount written off	–	–	(196)	(196)
Gross loan and advances	54,362	217	2,167	56,746
Impairment	(21)	(9)	(345)	(375)
Balance as at 31 December 2020	54,341	208	1,822	56,371

Reconciliation of changes to Loans/ Financing Impairment Allowances as at 31 December 2019

	12-month ECL (Stage 1) B$'000	Lifetime ECL not credit impaired (Stage 2) B$'000	Lifetime ECL credit impaired (Stage 3) B$'000	Total B$'000
Loans and advances to customers				
Balance as at 1 January 2019	48,321	1,223	5,718	55,262
Changes due to financial assets recognised in the opening balance that have:				
Transferred to 12-month ECL (Stage 1)	1,425	(358)	(1,067)	–
Transferred to Lifetime ECL not credit impaired (Stage 2)	(777)	963	(186)	–
Transferred to Lifetime ECL credit impaired (Stage 3)	(293)	(81)	374	–
	355	524	(879)	–
Purchase and origination	5,556	–	–	5,556
Derecognition	(2,593)	(367)	(2,583)	(5,543)
Amount written off	–	–	(138)	(138)
Gross loan and advances	51,639	1,380	2,118	55,137
Impairment	(61)	(18)	(144)	(223)
Balance as at 31 December 2019	51,578	1,362	1,974	54,914

Charge-offs and recoveries

Allowance for credit losses on loans and advances

	2020	**2019**
	B$'000	**B$'000**
Charge/(Writeback)		
Loans and advances		
- Net charge	169	(87)
- Bad debt recovered	(223)	(29)
- Bad debt written off	184	138
	130	22

CREDIT RISK MITIGATION

(a) Qualitative Disclosures

The Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the borrower/customer, source of repayment and debt/financing servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor.

Collateral is valued in accordance with the Group's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically, analysed and updated concurrently with the annual/periodic renewal of facilities.

Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, while physical collateral includes land and buildings. Apart from financial collateral and physical collateral, the Group has defined standards on the acceptance of non-tangible securities as support, such as guarantees from individuals, corporates and institutions, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility.

Currently, the Group does not employ the use of derivative credit instruments and On Balance sheet netting to mitigate its financing exposures.

Credit Concentration Risk

Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

In line with the Group, the Bank manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in lending/financing to single customer groups, borrower/customers engaged in similar activities, or diverse groups of borrower/customers that could be affected by similar economic or other factors. To manage concentration risk, amongst others, exposure limits and lending/financing guidelines are established including but not limited to single borrowing/financing groups and Bank and Non-Bank Financial Institutions (NBFI).

Periodic reviews of the said limits and related lending/financing guidelines are performed, whereupon any emerging concentration risks are addressed accordingly. Any exception to the limits and lending/financing guidelines would be subject to approvals from relevant higher approving authorities. Analysis of any single large exposure and group of exposures is regularly conducted and the lending/financing units undertake regular account updates, monitoring and management of these exposures. In addition, the Group also continuously updates lending or financing guidelines based on periodic reviews of sector risk factors and economic outlook.

Quantitative Disclosures

Total exposure (after on- or off-balance sheet netting), after the application of haircuts, that is covered by eligible financial collateral

Total exposures covered by eligible financial collateral

	2020 B$'000	2019 B$'000
Gross Loans and advances	56,746	55,137
Financial collateral	165,047	154,495

Total exposures covered by guarantees/ credit derivatives

	2020 B$'000	2019 B$'000
By industry sector:		
Agriculture	21	47
Manufacturing	5	–
Transportation	120	21
Traders	1,122	2,266
Services	1,013	948
Constructions and property financing	17	7
Personal and consumption loans	–	–
Tourism	37	–
Total gross exposure	2,335	3,289
Expected credit losses	–	–
Total net exposure	2,335	3,289

Collateral accepted as security for loans and advances

At 31 December, collaterals and other security enhancements held against loans and advances are as follows:

	2020 B$'000	2019 B$'000
Mortgage of properties	50,894	50,000

Cash	4,844	3,864
Guarantees	1,008	1,273
Less:		
Expected credit losses	(375)	(223)
	56,371	54,914

Security coverage of non-performing loans

	2020 B$'000	2019 B$'000
Secured by cash / mortgage of properties	2,167	2,253
Unsecured non-performing loans	–	–
	2,167	2,253

COUNTERPARTY CREDIT RISK

(a) Qualitative Disclosures

Counterparty Credit Risk

Counterpart Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike a firm's exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss. CCR creates a bilateral risk of loss; the market value of the transaction can be positive or negative to either counterparty to the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors.

Counterparty risk is typically defined as arising from two broad classes of financial products:

- Over-the-counter derivatives such as interest rate/profit rate swaps, FX forwards and credit default swaps.

- Securities financing transactions such as repos and reverse repos; and securities borrowing and lending.

Derivative financial instruments are entered into for hedging or proprietary trading purposes governed by Board approved limits and internal controls.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the differences between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices.

All outstanding financial derivative positions are marked-to-market on a daily basis. The Bank monitors counterparties' positions and promptly escalates any shortfall in the threshold levels to the relevant parties for next course of action.

(b) Quantitative Disclosures

Balances with Autoriti Monetari Brunei Darussalam ("AMBD")

	2020	**2019**
	B$'000	**B$'000**
Balances placed with AMBD	17,028	22,034

Balances with Banks and Other Financial Institution

	2020 **B$'000**	**2019** **B$'000**
Total	77,682	59,070

Group balances receivable

	2020 **B$'000**	**2019** **B$'000**
RHB Bank Berhad – Singapore Branch	8,060	3,618
RHB Bank Berhad – Bangkok Branch	4	4
Total	8,064	3,622

All group balances receivable are expected to mature within 12 months after the reporting date.

Government sukuk

	2020 **B$'000**	**2019** **B$'000**
Government sukuk held		
-Original maturity less than one year	10,000	10,000
Total	10,000	10,000

5.0 MARKET RISK

Market risk is the risk of losses arising from adverse movements in market drivers, such as interest/profit rates, credit spreads, equity prices, currency exchange rates and commodity prices. Under this definition, market risk will constitute:

- The interest/profit rate and equity risks pertaining to financial instruments in the trading book; and
- Foreign exchange risk and commodities risk in the trading and banking books

The Bank is not exposed to significant market risk except on its government sukuk.

Foreign exchange risk

Foreign exchange risk is the risk of holding or taking positions in foreign currencies, including gold. The Bank's foreign exchange exposures comprise non-trading foreign exchange exposure principally derived from inter-branch nostro accounts. As most of the foreign exchange exposure is to Singapore Dollar (SGD), the Bank is not exposed to significant foreign exchange risk due to the currency interchanges Agreement between Singapore and Brunei which interchange the two currencies at par.

Liquidity Risk

Liquidity risk is the risk of the Bank being unable to maintain sufficient liquidity to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

Liquidity risk is addressed through various measurement techniques such as liquidity gap analysis, early warning signals and stress testing that are controlled using approved limits and benchmarks. Periodic reports are presented to branch management level including Group Asset Liability Committee. In addition, the Bank reviews and enhances its Contingency Funding Plan to address probable circumstances that could cause liquidity distress to the Bank.

6.0 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, system and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk. Operational risk is inherent in the Group's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguard against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorization process. These controls are documented through a set of policies and procedures at the respective business and operation level.

The Group's Operational Risk Management Framework comprises of a wide range of activities and elements, broadly classified into:

- Analysis and Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The Group undertakes change management activities to improve risk management knowledge, culture and practices of the Group personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and n operating the business, responsible for managing operational risk and acting as the first line of defense.
- Monitoring and intervention – This is where the principal head office risk control units, including the risk management function, compliance function and the internal audit function, actively manage operational non-compliances and incidences as a second and third line of defense respectively. The second line of defense also monitors and overseas the recovery actions, including business continuity measures in cases of incidents causing disruption to business activities as proposed and undertaken by First Line of Defense.

Operational Risk Management Processes and Tools

The Bank applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The 5 processes are as follows: -

1. Establish the context,
2. Risk identification,
3. Risk analysis,
4. Risk mitigating and
5. Risk monitoring

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following tools are being used: -

- **Risk and Control Self-Assessment (RCSA)**

  RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational Risk Management.

- **Key Risk Indicators (KRI)**

  KRI is a measurable indicator utilized to track and monitor key operational risk exposures. KRI serves as an early warning signal: once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident Management and Loss Data Collection (IMLDC)**

  IMLDC provides structured process for the management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report all incidences within defined reporting timeline operational losses for further analysis of root cause to avoid further recurrence. This is also useful for reviewing the effectiveness of RCSA and KRIs.

Risk Mitigation and Controls

Risk mitigation strategies are used to minimize risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Strengthening internal controls**

  Internal controls are designed to commensurate operational risk exposures faced by the Group. It is mainly categorized into five components, namely:

  a. Control environment - management oversight and risk culture, which set the tone and serves as a foundation for all other components;
  b. Risk assessment – analyses identified risks to achieve objectives and ensure risks are well managed;
  c. Control activities – policies and procedures implemented manually and/or system-based to ensure management's directives are executed effectively and efficiently;
  d. Information and communication – relevant operational risk information are captured and communicated accordingly for decision making. Such information must be effective for utilization, delivered timely, confidentially is preserved, conform integrity needs, comply with relevant law/regulations, sufficient availability and reliable; and
  e. Monitoring – ongoing assessment and correcting deficiencies of internal control to assure it is operating as intended.

- **Business Continuity Management**

  To mitigate the impact of unforeseen operational risk events, the Group has on-going and actively managed Business Continuity Management (BCM) programme for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCM programme is subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Group Business Continuity Management Department.

  The Board of Directors has an oversight function through the BRC and GCRC. The Group Business Continuity Committee, which reports to GCRC, is the committee that oversees the Group's business continuity framework, policies, budget and plans.

- **Outsourcing**

  With the increasing need to outsource for cost and operational efficiency, the Group sourcing policy ensures that risk arising from outsourcing activities is adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Insurance**

  The Bank considers risk transfer by means of insurance to mitigate operational risk. The Bank has a programme of insurance designed to reduce its exposure to liability and to protect its assets. The Bank purchase insurance from leading insurers in the market covering fixed assets. Group term life and Group personal accident for the Bank's employee. These are third-party insurers providers and will financially mitigate the economic consequences of risks.

Monthly operational risk reporting is made to the Bank management committee (MANCO) and regional risk management. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting enables the Bank MANCO to identify adverse operational lapse, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

Technology Risk

Technology Risk refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise.

The bank recognizes the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Risk Management in Technology (RMiT) Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers.

Cyber Risk

Cyber Risk refers to threats or vulnerabilities emanating from the connectivity of internal infrastructure to external networks such as the internet.

This is an inherent risk associated with the industry moving towards the internet as a channel for the delivery of banking services. The Group recognizes the risks associated to cyber and as part of the mitigation shall continuously identify suitable security devices to be deployed and ensure sufficient resources with the right skill sets were allocated to manage this risk. The Group also subscribed to various threat intelligence providers to obtain latest cyber landscape information that will used for risk mitigation. To further provide assurance that the internet facing application system are secured, the Group engaged reputable IT security service providers to perform periodic vulnerability assessment/penetration testing where weakness detected shall be duly resolved with attestation from external consultants.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Group's legal counsel and external legal counsel to ensure that legal risk is effectively managed.

7.0 Interest Rate Risk in the Banking Book

Interest rate risk in the banking book refers to the risk to Group's earnings and economic value of equity due to the adverse movements in interest rate/benchmark rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Earning-at-Risk (EaR) and Economic Value of Equity (EVE) are used to access interest rate risk in the banking book. They are computed based on the repricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis. The Group ALCO supported the board committees in establishing policies, strategies and limits for the management of balance sheet risk exposure. The Group ALM within Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the interest rate risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net interest/profit income and economic value of equity, as well as to ensure the interest rate risk/rate of return risk exposures are maintained within defined risk tolerances.

In order to achieve a balance between profitability from banking activities and minimizing risk to earnings and capital from changes in interest rate/benchmark rate, interest rate risk to earnings is controlled using Risk Appetite, Management Action Triggers (MATs) and identified escalation procedures. Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest/benchmark rate movements on the balance sheet. Such tests are performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risk in the banking book in an environment of rapid financial market changes.

8.0 Reputational Risk

Reputational risk is defined as the risk that negative publicity regarding the conduct of the Group or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Group, affecting the share price.

Reputational risk in the Group is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. The Group has developed and implemented a reputational risk management policy. The key elements in the management of reputational risk include:

- Practicing good corporate governance and culture of integrity to promote execution and achievement of corporate strategies and business objective.
- Manage reputational risk within a very low risk appetite with zero tolerance level reporting approach for incidences that affect the Group's reputation.
- Adopt sound risk management practices that include the practice of building "reputation capital" and earning the goodwill of key stakeholder.
- Maintaining proper mechanisms to monitor and escalate material lapses/breaches of internal and regulatory policies/guidelines that may place the Group's reputation at risk.
- Maintaining proper channels of communication in dealing with internal and external stakeholders.

It is the responsibility of the Bank to promote awareness and application of the Group's policy and procedures regarding reputational risk, in all dealings with customers, potential investors and host regulators.