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RHB Bank Berhad
Brunei Darussalam Branch

Annual Report
Year ended 31 December 2019

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KPMG
Unit 401- 403A, Wisma Jaya
Jalan Pemancha
Bandar Seri Begawan BS8811
Brunei Darussalam

Telephone +673 222 8382
+673 222 6888
Fax +673 222 8389

Independent Auditors' Report

RHB Bank Berhad

Brunei Darussalam Operations

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Brunei Darussalam Operations of RHB Bank Berhad ("the Branch"), pursuant to Section 302(7) of the Brunei Darussalam Companies Act, Chapter 39 ('the Act'), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

The Branch is a segment of RHB Bank Berhad and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded therein.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Act and International Financial Reporting Standards ('IFRS') so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Brunei Darussalam as at 31 December 2019, and of the results and cash flows of the Branch's operations in Brunei Darussalam for the year ended on that date.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.

KPMG

KPMG
Certified Public Accountants

Amy Tan Nga Mee
Public Accountant

Brunei Darussalam
Date: 30 March 2019

Statement of financial position
As at 31 December 2019

	Note	2019 B$'000	2018 B$'000
Assets			
Cash and short term funds	4	86,185	67,403
Balances with Autoriti Monetari Brunei Darussalam ("AMBD")	5	6,610	6,025
Group balances receivable	6	3,622	6,984
Government sukuk	7	10,000	13,000
Loans and advances to customers	8	54,914	54,924
Right of use assets	9	340	–
Property and equipment	10	259	304
Other assets	11	1,492	1,778
Total assets		163,422	150,418
Liabilities and head office account			
Deposits from customers	12	104,862	95,738
Deposits from banks and other financial institutions	13	678	593
Group balances payable	14	15,088	12,969
Other liabilities	15	799	705
Provision for taxation		132	28
Lease liabilities	16	343	–
Head Office Account	18	41,520	40,385
Total liabilities and head office account		163,422	150,418

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

Ishak Bin Othman

Chief Executive Officer

Tunku Mohammad Firdaus bin Tunku Yahaya

Head of Operations

The significant accounting policies and the notes from pages FS4 to FS45 form an integral part of the financial statements.

Statement of comprehensive income
Year ended 31 December 2019

	Note	2019 B$'000	2018 B$'000
Interest income	21	4,239	3,902
Less: Interest expense	21	(1,091)	(751)
Net interest income		3,148	3,151
Fee and commission income	22	390	387
Other income	23	254	329
Total operating income		3,792	3,867
Less:			
Personnel expenses	24	(1,401)	(1,337)
Operating lease expenses		(141)	(214)
Depreciation of right of use assets	9	(68)	–
Depreciation of property and equipment	10	(94)	(70)
Other expenses	25	(825)	(699)
Net impairment loss and recoveries	26	(22)	(587)
Profit before taxation		1,241	960
Tax expense	17	(106)	(2)
Net Profit / Total comprehensive income for the year		1,135	958

The significant accounting policies and the notes from pages FS4 to FS45 form an integral part of the financial statements.

Statement of cash flows
Year ended 31 December 2019

	Note	2019 B$'000	2018 B$'000
Cash flows from operating activities			
Profit for the year		1,241	960
Adjustments for:			
Depreciation of property and equipment	10	94	70
Depreciation of right of use assets	9	68	–
Net impairment loss on loans and advances		51	629
Net interest income	21	(3,148)	(3,151)
Operating loss before changes in operating assets and liabilities		(1,694)	(1,492)
Changes in:			
Loans and advances to customers		(41)	(5,653)
Group balances receivable		3,362	1,271
Group balances payable		2,119	7,220
Balances with AMBD		(585)	(32)
Placements with banks (tenors of more than 3 months)		7,450	2,600
Other assets		398	(380)
Deposits from customers		9,124	(5,372)
Deposits from banks and other financial institutions		85	(47)
Other liabilities		(31)	(108)
Cash generated from/(used in) operating activities		20,187	(1,993)
Interest received		3,960	3,758
Interest paid		(966)	(672)
Income taxes paid		(2)	(34)
Net cash generated from operating activities		23,179	1,059
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(49)	(305)
Purchase of government sukuk		(43,043)	(32,694)
Redemption of government sukuk		46,210	32,290
Redemption of investment securities		–	4,000
Net cash generated from investing activities		3,118	3,291
Cash flows from financing activity			
Principal lease payment		(65)	–
Net cash used in financing activity		(65)	–
Net movement in cash and cash equivalents		26,232	4,350
Cash and cash equivalents at 1 January		16,203	11,853
Cash and cash equivalents at 31 December	20	42,435	16,203

The significant accounting policies and the notes from pages FS4 to FS45 form an integral part of the financial statements.

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Branch Management on 31 March 2020.

1 Corporate 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.

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 these activities during the year.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This is the first set of the Branch's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 2.5.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentation currency

These financial statements are presented in Brunei dollars (BND or B$), which is the Branch's functional currency. All financial information presented in Brunei dollars 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 IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

Expected credit losses ("ECL")

The Branch's 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).

2.5 Changes in accounting policies

New standards and amendments

The Branch has applied the following IFRSs, amendments to and interpretations of IFRS for the first time for the annual period beginning on 1 January 2019:

- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- *Prepayment Features with Negative Compensation* (Amendments to IFRS 9)

Other than IFRS 16, the application of these amendments to standards and interpretations does not have a material effect on the financial statements.

IFRS 16 *Leases*

The Branch applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Branch determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Branch now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in IFRS 16.

On transition to IFRS 16, the Branch elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Branch applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Branch leases many assets including property and office equipment. The Branch previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Branch. Under IFRS 16, the Branch recognises right of use ("ROU") assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

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 price.

Leases classified as operating leases under IAS 17

Previously, the Branch classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate applicable to the leases as at 1 January 2019. ROU assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Branch had no ROU assets at the date of transition.

The Branch used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS17. In particular, the Branch:

- did not recognise ROU assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise ROU assets and liabilities for leases of low value assets (e.g. office equipment);
- excluded initial direct costs from the measurement of the ROU asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on transition

There is no impact on transition as there are no contractual arrangement in scope of IFRS 16 on the date of initial application.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in Note 2.5, which addresses changes in accounting policies.

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 income statement.

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 (unless it is a trade receivable without a significant financing component) 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.

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 method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in income statement. Any gain or loss on derecognition is recognised in the income statement.

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 income statement 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 method.

(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 income statement.

(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.

(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 income statement.

(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 income statement 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 income statement 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 / furniture	3-10 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 has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Branch assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Branch uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

As a 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 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 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 income statement 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.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Branch determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Branch classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Branch's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

3.5 Impairment of financial assets

The Branch recognises loss allowances for ECLs 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 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.

(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 income statement.

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 income statement.

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 (other than deferred tax 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 income statement. 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 income statement 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

A provision is recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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 income statement using the effective interest 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 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 is recognised in income statement.

The Branch has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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 New standards and interpretations not yet adopted

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Branch has not early adopted the new or amended standards and interpretations in preparing these financial statements.

The following new IFRS, interpretations and amendments to IFRS are not expected to have a significant impact on the Branch's financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of Material* (Amendments to IAS 1 and IAS 8)

The new standard and interpretations are not expected to have a significant impact on the Branch's financial statements.

4 Cash and short term funds

	2019 B$'000	2018 B$'000
Cash in hand	5,081	4,070
Balances placed with AMBD (unrestricted balance)	22,034	5,381
Balances with banks and other financial institutions	59,070	57,952
	86,185	67,403

5 Balances with Autoriti Monetari Brunei Darussalam ("AMBD")

The minimum cash reserve is maintained as required by the provisions of Section 45 of the Brunei Darussalam Banking Order 2006. This is not available for use in the Branch's day to day operations. At present the minimum cash reserve requirement is 6% (2018: 6%) of the deposit liabilities and is not earning interest.

6 Group balances receivable

	2019 B$'000	2018 B$'000
RHB Bank Berhad – Singapore Branch	3,618	6,980
RHB Bank Berhad – Bangkok Branch	4	4
	3,622	6,984

7 Government sukuk

	2019 B$'000	2018 B$'000
Government sukuk held		
- Original maturity less than one year	10,000	13,000

8 Loans and advances to customers

Loans and advances to customers analysed by type:

	Note	2019 B$'000	2018 B$'000
Cash line / overdrafts		13,103	12,414
Term loans:			
- Property loans		15,300	15,179
- Other term loans		23,633	25,106
Trust receipts		3,101	2,563
Gross loan and advances		55,137	55,262
Less: Impairment	31(i)	(223)	(338)
Net loan and advances		54,914	54,924

9 Right of use assets

The Branch leases an office. The office lease was entered into during 2019, with an option to renew the lease after three years. Lease payments are renegotiated every three years to reflect market rentals. The Branch is restricted from entering into any sub-lease arrangements. Previously, the office lease was classified as operating lease under IAS 17.

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 ROU assets and lease liabilities for these leases.

Right of use assets

	2019 B$'000
Balance at 1 January 2019	-
Additions to right-of-use assets	408
Depreciation charge for the year	(68)
Balance at 31 December 2019	340

Amounts recognised in income statement
2019 – Lease under IFRS 16

	B$'000
Interest on lease liabilities	7
Expenses relating to short-term and/or low-value assets	3

2018 – Operating lease under IAS 17

	B$'000
Lease expense	217

Amounts recognised in statement of cash flows

	2019 B$'000
Total cash outflow for leases	72

Extension options

The office lease 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$371,000.

10 Property and equipment

	Renovation B$'000	Equipment / Furniture B$'000	Motor vehicles B$'000	Total B$'000
Cost				
Balance at 1 January 2018	1,237	1,261	106	2,604
Additions during the year	–	305	–	305
Balance at 31 December 2018	1,237	1,566	106	2,909
Balance at 1 January 2019	1,237	1,566	106	2,909
Additions during the year	–	49	–	49
Balance at 31 December 2019	1,237	1,615	106	2,958
Accumulated depreciation and impairment				
Balance at 1 January 2018	1,232	1,228	75	2,535
Depreciation charge for the year	1	48	21	70
Balance at 31 December 2018	1,233	1,276	96	2,605
Balance at 1 January 2019	1,233	1,276	96	2,605
Depreciation charge for the year	1	83	10	94
Balance at 31 December 2019	1,234	1,359	106	2,699
Carrying amounts				
Balance at 1 January 2018	5	33	31	69
Balance at 31 December 2018	4	290	10	304
Balance at 31 December 2019	3	256	–	259

11 Other assets

	2019 B$'000	2018 B$'000
Other receivables	765	1,140
Prepayments	168	209
Accrued interest receivable	470	357
Deposits	89	72
	1,492	1,778

12 Deposits from customers

Analysed by type of deposits:

	2019 B$'000	2018 B$'000
Demand deposits	22,563	18,856
Savings deposits	5,542	6,552
Fixed deposits	76,640	70,170
Others	117	160
	104,862	95,738

Analysed by type of customer:

	2019 B$'000	2018 B$'000
Government	22,000	21,000
Business enterprises	46,654	38,557
Individuals	36,091	36,021
Others	117	160
	104,862	95,738

13 Deposits from banks and other financial institutions

	2019 B$'000	2018 B$'000
Banks and financial institutions	678	593

14 Group balances payable

	2019 B$'000	2018 B$'000
RHB Bank Berhad – Head Office	15,047	12,922
RHB Bank Berhad – Singapore Branch	37	43
RHB Bank Berhad – Bangkok Branch	4	4
	15,088	12,969

15 Other liabilities

	2019 B$'000	2018 B$'000
Creditors and accruals	374	405
Accrued interest payable	425	300
	799	705

16 Lease liabilities

	2019 B$'000
Balance at 1 January 2019	–
Changes from financing cash flows	
Payment of lease liabilities	(65)
Interest paid	(7)
Other changes	
New lease	408
Interest expense	7
Balance at 31 December 2019	343

17 Tax expense

The tax charge recognised in the profit or loss comprises the following:

	2019 B$'000	2018 B$'000
Current tax expense		
Current year	106	2
	106	2

Reconciliation of effective tax rate

	2019 B$'000	2018 B$'000
Profit before income tax	1,241	960
Income tax at corporation tax rate of 18.5% (2018: 18.5%)	230	178
Non-deductible expenses	5	1
Non-taxable income	(31)	(62)
Tax incentives	(91)	(66)
Utilisation of previously unrecognised tax losses	–	–
Others	(7)	(49)
	106	2

18 Head Office Account

	Assigned capital B$'000	Prudential reserve for credit loss B$'000	Statutory reserve fund B$'000	Retained profits B$'000	Total B$'000
Balance at 1 January 2019	30,000	–	5,051	5,334	40,385
Profit/ Other comprehensive income for the financial year	–	–	–	1,135	1,135
Total comprehensive income for the financial year	–	–	–	1,135	1,135
Transfers to prudential reserve for credit loss	–	–	–	–	–
Transfers between reserves	–	–	567	(567)	–
Balance at 31 December 2019	30,000	–	5,618	5,902	41,520

	Assigned capital B$'000	Prudential reserve for credit loss B$'000	Statutory reserve fund B$'000	Retained profits B$'000	Total B$'000
Balance at 1 January 2018	30,000	–	4,572	4,855	39,427
Profit/ Other comprehensive income for the financial year	–	–	–	958	958
Total comprehensive income for the financial year	–	–	–	958	958
Transfers to prudential reserve for credit loss	–	–	–	–	–
Transfers between reserves	–	–	479	(479)	–
Balance at 31 December 2018	30,000	–	5,051	5,334	40,385

The statutory reserve fund is maintained in accordance with Section 24 of the Banking Order, 2006. Part of the profit for the financial year is required to be transferred to the statutory reserve fund and not distributable as repatriation to Head Office. The Branch transferred a minimum of 50% (2018: 50%) of the profit to the statutory reserve fund.

19 Commitments and contingencies

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

	2019 B$'000	2018 B$'000
Contingencies		
Letters of credit	211	207
Guarantees and bonds	2,195	1,573
Others	883	640
Sub total	3,289	2,420
Commitments		
Undrawn credit lines	7,940	11,215
Sub total	7,940	11,215
Total	11,229	13,635

20 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

	2019 B$'000	2018 B$'000
Cash in hand	5,081	4,070
Balances placed with AMBD	22,034	5,381
Balances with banks and other financial institutions	15,320	6,752
	42,435	16,203

21 Net interest income

	2019 B$'000	2018 B$'000
Interest income		
Loans and advances to customers	2,929	2,785
Deposits and placement with other banks	1,107	815
Government sukuk	169	148
Investment securities	–	137
Group balances receivable	34	17
	4,239	3,902

Interest expense		
Deposits from customers	954	701
Group balances payable	130	50
Others	7	–
	1,091	751
Net interest income	3,148	3,151

Included in the various line items under interest income for the year ended 31 December 2019 is Nil (2018: Nil) relating to impaired financial assets.

Total interest income and expense calculated using the effective interest method reported above that relate to financial assets or financial liabilities not carried at fair value through profit or loss are B$4,239,000 (2018: B$3,902,000) and B$1,091,000 (2018: B$751,000) respectively.

22 Fee and commission income

	2019 B$'000	2018 B$'000
Fee income		
Commission	225	240
Service charges	72	62
Fees on loans and advances	62	69
Guarantee fees	28	15
Others	3	1
Total fee income	390	387

23 Other income

	2019 B$'000	2018 B$'000
Net foreign exchange gain	254	329

24 Personnel expenses

	2019 B$'000	2018 B$'000
Wages and salaries	884	828
Allowance and bonuses	295	301
Contributions to defined contribution plan	135	126
Others	87	82
	1,401	1,337

25 Other expenses

	2019 B$'000	2018 B$'000
Advertisement and publicity	13	17
License fees	100	113
Legal and professional fees	64	48
Electronic data processing expenses	214	3
Others	434	518
	825	699

26 Net impairment loss and recoveries

	2019 B$'000	2018 B$'000
Charge/(Writeback)		
Loans and advances		
- Net writeback	(87)	(26)
- Bad debt recovered	(29)	(42)
- Bad debt written off	138	655
	22	587

27 Accounting classifications and fair values

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

	Carrying amount	
	At Amortised cost B$'000	Total B$'000
2019		
Financial 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	54,914	54,914
Other assets*	1,324	1,324
Total assets	162,655	162,655

	Carrying amount	
	At Amortised cost B$'000	**Total B$'000**
2019		
Financial liabilities		
Deposits from customers	104,862	104,862
Deposits from banks and other financial institutions	678	678
Group balances payable	15,088	15,088
Other liabilities	799	799
Total liabilities	121,427	121,427

*: Excludes prepayments

	Carrying amount	
	At Amortised cost B$'000	**Total B$'000**
2018		
Financial assets		
Cash and short term funds	67,403	67,403
Balances with AMBD	6,025	6,025
Group balances receivable	6,984	6,984
Government sukuk	13,000	13,000
Loans and advances	54,924	54,924
Other assets*	1,569	1,569
Total assets	149,905	149,905

	Carrying amount	
	At Amortised cost B$'000	**Total B$'000**
2018		
Financial liabilities		
Deposits from customers	95,738	95,738
Deposits from banks and other financial institutions	593	593
Group balances payable	12,969	12,969
Other liabilities	705	705
Total liabilities	110,005	110,005

*: Excludes prepayments

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 Autoriti Monetari Brunei Darussalam, group balances receivable, government sukuk, investment securities, other assets, deposits from banks and other financial institutions, group balances payable 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

As at 31 December 2019

Assets	**Current**	**Non-current**	**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	6,728	48,186	54,914
Right of use assets	–	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	104,862	–	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 liabilities	133	210	343
Head Office Account	–	41,520	41,520
Total liabilities and head office account	121,692	41,730	163,422

As at 31 December 2018

Assets	**Current**	**Non-current**	**Total**
Cash and short term funds	67,403	–	67,403
Balances with AMBD	6,025	–	6,025
Group balances receivable	6,984	–	6,984
Government sukuk	13,000	–	13,000
Loans and advances to customers	16,783	38,141	54,924
Property and equipment	–	304	304
Other assets	1,709	69	1,778
Total assets	111,904	38,514	150,418
Liabilities and head office account			
Deposits from customers	95,738	–	95,738
Deposits from banks and other financial institutions	593	–	593
Group balances payable	12,969	–	12,969
Other liabilities	705	–	705
Provision for taxation	28	–	28
Head Office Account	–	40,385	40,385
Total liabilities and head office account	110,033	40,385	150,418

29 Related party transactions

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 the relevant notes to the financial statements.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation for the period comprised the following:

	2019 B$'000	2018 B$'000
Short-term employee benefits	195	192

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

Key management personnel transactions

As at reporting date, there were no transactions or outstanding balances (2018: B$ Nil) 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.

	2019	**2018**
	B$'000	**B$'000**
Capital		
Core capital (Tier I capital)	41,520	40,385
Supplementary capital (Tier II capital)	79	70
Adjustment to Tier II capital	–	–
Total capital base	41,599	40,455
Total risk-weighted amount		
Risk weighted amount for credit risk	67,260	60,646
Risk weighted amount for operational risk	7,143	6,875
Risk weighted amount for market risk	500	771
Total risk-weighted amount	74,903	68,292
	%	**%**
Capital ratios		
Core capital (Tier 1) ratio	55.43	59.14
Total capital ratio	55.54	59.24

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.

Overarching risk management principles

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group.

Risk governance and organisation

Principle 1: Risk governance from the Boards of Directors of the various operating entities within the Group

The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities

The Board of Directors (Board), through the Board Risk Committee (BRC), Group Capital and Risk Committee (GCRC) and the Group Risk and Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The BRC is the principal Board Committee that provides oversight over 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 of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group and which reports to the BRC and the Group Management Committee. There are other committees set up to manage specific areas of risks in the Group.

Risk culture

Principle 2: Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that "Risk and Compliance is Everyone's Responsibility".

The Strategic Business Groups (SBGs) and Strategic Functional Groups (SFGs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risk. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function.

Risk environment and infrastructure

Principle 3: Institutionalisation of a risk-focused organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through the strengthening of the central risk management function as well as the continuous reinforcement of a risk and control environment within the Group.

Group Risk & Credit Management is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer.

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.

- 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 and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.

• 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 to ensure that the risks remain within the established appetite and to support an informed decision-making process.

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. 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.

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested into the technology, including data management to support the Group's risk management activities.

Risk Appetite

Principle 4: Alignment of risk management to business strategies

The Group's Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice versa. This 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 appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

Risk-adjusted return

Principle 5: Optimisation of risk-adjusted returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses.

The medium to long term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return-based framework for allocation of capital to business units and for performance measurement and management.

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 income statements.

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 that are subject to impairment:

	2019 B$'000	**2018 B$'000**
Credit risk exposure relating to on-balance sheet assets:		
Short term funds (exclude cash in hand)	81,104	63,333
Balances with Authoriti Monetari Brunei Darussalam ("AMBD")	6,610	6,025
Group balances receivable	3,622	6,984
Government sukuk	10,000	13,000
Loans and advances to customers	54,914	54,924
Other financial assets	1,324	1,569
	157,574	145,835
Credit risk exposure relating to off-balance sheet items:		
- Commitments and contingencies	11,229	13,635
Total maximum credit risk exposure that are subject to impairment	168,803	159,470

Financial assets – credit quality

Loans and advances analysed by stages 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	–
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

Loans and advances analysed by stages 2018:

	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 2018	43,272	1,193	5,799	50,264
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	894	(148)	(746)	–
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(781)	831	(50)	–
- Transferred to Lifetime ECL credit impaired (Stage 3)	(940)	(716)	1,656	–
Purchase and origination	11,127	210	–	11,337
Derecognition	(5,251)	(147)	(315)	(5,713)
Amount written off	–	–	(626)	(626)
Gross loan and advances	48,321	1,223	5,718	55,262
Impairment	(38)	(32)	(268)	(338)
Balance as at 31 December 2018	48,283	1,191	5,450	54,924

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

	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	38	32	268	338
Changes due to financial assets recognised in the opening balance that have been:				
- 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	–
	109	8	(117)	–
Allowance made/(written back) during the financial year	(85)	(19)	22	(82)
Bad debts written off	–	–	(28)	(28)
Derecognition	(1)	(3)	(1)	(5)
Balance as at 31 December 2019	61	18	144	223

	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 2018	93	48	223	364
Changes due to financial assets recognised in the opening balance that have been:				
- Transferred to 12-month ECL (Stage 1)	116	(5)	(111)	–
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(1)	9	(8)	–
- Transferred to Lifetime ECL credit impaired (Stage 3)	(2)	(30)	32	–
	113	(26)	(87)	–
Allowance made/(written back) during the financial year	(159)	10	146	(3)
Bad debts written off	–	–	–	–
Derecognition	(9)	–	(14)	(23)
Balance as at 31 December 2018	38	32	268	338

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:

2019	**Loans and advances B$'000**	**Letters of credit, acceptances, guarantees and bonds B$'000**	**Undrawn credit lines 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
Less: Expected credit losses	(223)	–	–
Total net loans and advances	54,914	3,289	7,940

2018	**Loans and advances B$'000**	**Letters of credit, acceptances, guarantees and bonds B$'000**	**Undrawn credit lines B$'000**
By industry sector:			
Agriculture	426	37	174
Manufacturing	33	7	18
Transportation	145	66	173
Traders	10,510	1,303	4,855
Services	4,070	999	1,581
Construction and property financing	33,592	8	4,098
Personal and consumption loans	1,088	–	243
Tourism	5,398	–	73
Total gross loans and advances	55,262	2,420	11,215
Less: Expected credit losses	(338)	–	–
Total net loans and advances	54,924	2,420	11,215

	Loans and advances B$'000	Letters of credit, acceptances, guarantees and bonds B$'000	Undrawn credit lines B$'000
2019			
By customer type:			
Commercial	16,345	3,286	5,286
Retail	38,792	3	2,654
Less:			
Expected credit losses	(223)	–	–
	54,914	3,289	7,940
2018			
By customer type:			
Commercial	12,331	2,406	7,364
Retail	42,931	14	3,851
Less:			
Expected credit losses	(338)	–	–
	54,924	2,420	11,215

Collateral accepted as security for loans and advances

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

	2019 B$'000	2018 B$'000
Mortgage of properties	50,000	51,636
Cash	3,864	2,171
Guarantees	1,273	1,455
Less:		
Expected credit losses	(223)	(338)
	54,914	54,924

Security coverage of non-performing loans:

	2019 B$'000	2018 B$'000
Secured by cash / mortgage of properties	2,119	5,393

(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.

The Branch is not exposed (2018: 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 Interchanged 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:

	2019 B$'000	2018 B$'000
Fixed-rate assets	68,750	70,200
Floating-rate assets	55,137	55,262
Fixed-rate liabilities	(82,182)	(76,722)
	41,705	48,740

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$551,370 (2018: B$552,620) 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 testings 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 behavioral patterns such as early withdrawal of deposits or loans.

	Less than 3 months B$'000	3 to 6 months B$'000	6 to 12 months B$'000	Over 1 year B$'000	Total B$'000
2019					
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	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

2018	Less than 3 months B$'000	3 to 6 months B$'000	6 to 12 months B$'000	Over 1 year B$'000	Total B$'000
Assets					
Cash and short term funds	30,203	23,000	14,200	–	67,403
Balances with AMBD	6,025	–	–	–	6,025
Group balances receivables	6,984	–	–	–	6,984
Government sukuk	13,000	–	–	–	13,000
Loans and advances	6,473	6,624	3,686	38,141	54,924
Other assets	1,262	184	54	69	1,569
Total assets	63,947	29,808	17,940	38,210	149,905
Liabilities					
Deposits from customers	44,479	24,662	26,597	–	95,738
Deposits from banks and other financial institutions	593	–	–	–	593
Group balances payable	12,969	–	–	–	12,969
Other liabilities	545	96	64	–	705
Total liabilities	58,586	24,758	26,661	–	110,005

RHB Bank Berhad

Brunei Darussalam Branch

Pillar 3 Disclosures

31st December 2019

RHB Bank Berhad

Brunei Darussalam Branch

Pillar 3 Disclosures

Table of Content

1.0 Disclosure A: Scope of Application

The Pillar 3 Disclosures contained in this document relate to RHB Bank Berhad Brunei Darussalam Branch for the year ended 31st December 2019 and is 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 Bank") 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 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, strategic and cross-border, as well as other forms of risk 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 a central 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 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.

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

OVERARCHING RISK MANAGEMENT PRINCIPLES

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group.

Principle 1: Risk governance from the Boards of Directors of the various operating entities with the Group

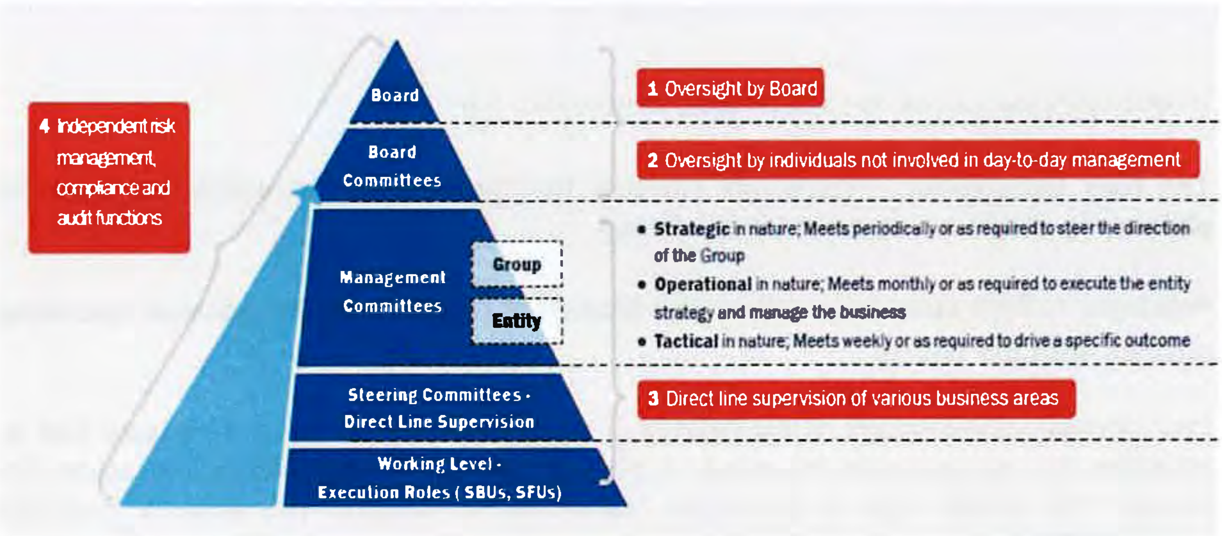
The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management process is in place which is uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

RISK GOVERNANCE AND ORGANISATION

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 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 of 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.

An overview of this governance framework at Group level is as below:



RISK CULTURE

Principle 2: Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group and the Bank adopts the principle that "Risk and Compliance is Everyone's Responsibility".

The Strategic Business Units (SBUs) and Strategic Functional Units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risk. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. 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 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 ENVIRONMENT AND INFRASTRUCTURE

Principle 3: Institutionalisation of a risk-focused organisation

In addition to risk ownership, a risk-focused culture is promoted throughout the Group through the strengthening of the central risk management function as well as the continuous reinforcement of a risk and control environment within the Group.

Central Risk Management Function

Group Risk & Credit Management function, headed by the Group Chief Risk Officer is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short term pressures to generate revenues.

The roles and responsibilities of the Group Chief Risk Officer include:

- 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 a proactive, balanced and risk attuned culture within the Group;
- Advising senior management, respective risk committees and the Boards on risk issues and their possible impact on the Group in the achievement of its objectives and strategies;

Group Risk & Credit Management consisting of Group Risk Management, Group Credit Management and Group Risk Operations provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Key areas for which Group Risk Management is responsible for, include the Group's risk policy and framework, day-to-day risk measurement and monitoring, providing timely risk analysis to management, and ensuring compliance to regulatory risk reporting requirements.

Group Credit Management oversees the Group-wide credit evaluation and assessment, approval and credit monitoring functions by providing credit risk assessment assurance on credit proposals, highlighting key risks and potential problematic accounts, and improving credit process efficiency.

Group Risk Operations is responsible for strategising and implementing a comprehensive enterprise-wide risk governance framework and managing the development of robust risk management infrastructure and tools, aligned with the Group's strategy for growth and keeping pace with the market requirements and competitive business environment. Group Risk Operations drives the operationalisation of the Group's risk transformation initiatives in establishing risk management as a valuable business partner.

Risk and Control Environment

The business and functional heads are accountable for risk management in their businesses and functions, and for overseas operations where they have governance responsibilities. The business and functional units have clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management process.

The primary responsibility for managing risks, therefore, rests with the business managers who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.

- 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 and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.

- 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 to ensure that the risks remain within the established appetite and to support an informed decision-making process.

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. 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. In terms of risk infrastructure, the Group has organised its resources and talents into dedicated risk management functions, and invested into the technology, including data management to support the Group's risk management activities.

RISK APPETITE

Principle 4: Alignment of risk management to business strategies

The Group's Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice versa. This 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 appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

Principle 5: Optimisation of risk-adjusted returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses. The medium to long term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return-based framework for allocation of capital to business units and for performance measurement and management.

3.0 CREDIT RISK

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance with the agreed terms. It stems primarily from the Group's lending/financing, trade finance and its funding, underwritings, investment and trading activities from both on- and off-balance sheet transactions.

(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 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.

(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 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 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.

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 is 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), 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 B$'000	**Letters of credit, acceptances, guarantees and bonds B$'000**	**Undrawn credit lines B$'000**
2019			
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
Constructions and property financing	33,917	7	1,541
Personal and consumption loans	1,700	–	265
Tourism	2,836	–	67
	55,137	3,289	7,940

2018	Loans and advances B$'000	Letters of credit, acceptances, guarantees and bonds B$'000	Undrawn credit lines B$'000
By industry sector:			
Agriculture	426	37	174
Manufacturing	33	7	18
Transportation	145	66	173
Traders	10,510	1,303	4,855
Services	4,070	999	1,581
Constructions and property financing	33,592	8	4,098
Personal and consumption loans	1,088	–	243
Tourism	5,398	–	73
	55,262	2,420	11,215

Geographic Distribution - Loan and Advances

	2019 B$'000	2018 B$'000
Brunei Darussalam	55,137	55,262
Other Asia	-	-
	55,137	55,262

Geographic Distribution - Impairment

	2019 B$'000	2018 B$'000
Brunei Darussalam	2,118	5,718
Other Asia	-	-
	2,118	**5,718**

The following table shows cashflow 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 behavioral patterns such as early withdrawal of deposits or loans.

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	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

2018	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	30,203	23,000	14,200	–	67,403
Balances with AMBD	6,025	–	–	–	6,025
Group balances receivables	6,984	–	–	–	6,984
Government sukuk	13,000	–	–	–	13,000
Loans and advances	6,473	6,624	3,686	38,141	54,924
Other assets	1,262	184	54	69	1,569
Total assets	63,947	29,808	17,940	38,210	149,905
Liabilities					
Deposits from customers	44,479	24,662	26,597	–	95,738
Deposits from banks and other financial institutions	593	–	–	–	593
Group balances payable	12,969	–	–	–	12,969
Other liabilities	545	96	64	–	705
Total liabilities	58,586	24,758	26,661	–	110,005

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

	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	38	32	268	338
Changes due to financial assets recognised in the opening balance that have been:				
- 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	–
	109	8	(117)	–
Allowance made/(written back) during the financial year	(85)	(19)	22	(82)
Bad debts written off	–	–	(28)	(28)
Derecognition	(1)	(3)	(1)	(5)
Balance as at 31 December 2019	61	18	144	223

	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 2018				
- As previously reported	–	–	–	–
- Effect of adoption of IFRS 9	93	48	223	364
- As restated	93	48	223	364
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	116	(5)	(111)	–
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(1)	9	(8)	–
- Transferred to Lifetime ECL credit impaired (Stage 3)	(2)	(30)	32	–
	113	(26)	(87)	–
Allowance made/(written back) during the financial year	(159)	10	146	(3)
Bad debts written off	-	-	-	–
Derecognition	(9)	-	(14)	(23)
Balance as at 31 December 2018	38	32	268	338

Charge-offs and recoveries

Allowance for impairment on loans and advances

	2019 B$'000	2018 B$'000
Charge/(Writeback)		
Loans and advances		
- Net charge	(87)	(26)
- Bad debt recovered	(29)	(42)
- Bad debt written off	138	655
Total	22	587

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, borrowers/customers engaged in similar activities, or diverse groups of borrowers/ customers that could be affected by similar economic or other factors. To manage this 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. This facilitates better management of credit concentration risk.

(b) Quantitative Disclosures

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

	2019 B$'000	**2018 B$'000**
Gross Loans and advances	55,137	55,262
Financial collateral	154,495	172,745

Total exposure (after on- or off-balance sheet netting) that is covered by guarantees / credit derivatives

	2019	**2018**
By industry sector:		
Agriculture	47	37
Manufacturing	–	7
Transportation	21	66
Traders	2,266	1,303
Services	948	999
Constructions and property financing	7	8
Personal and consumption loans	–	–
Tourism	–	–
	3,289	2,420

Collateral accepted as security for loans and advances

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

	2019 B$'000	**2018 B$'000**
Mortgage of properties	50,000	51,636
Cash	3,864	2,171
Guarantees	1,273	1,455
	55,137	55,262

Security coverage of non-performing loans:

	2019 B$'000	2018 B$'000
Secured by cash / mortgage of properties	2,119	5,393
Unsecured non-performing loans	–	–
	2,119	5,393

COUNTERPARTY CREDIT RISK

(a) Qualitative Disclosures

Counterparty Credit Risk

Counterparty Credit Risk 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.

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 difference 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")

	2019 B$'000	**2018 B$'000**
Balances placed with AMBD	22,034	5,381

Balances with Banks and Other Financial Institution

	2019 B$'000	**2018 B$'000**
Hong Leong Bank Singapore	53,250	36,200
First Abu Dhabi Bank Singapore	5,500	20,000
Maybank Singapore	-	1,000
Deposits with agents	320	752
Total	59,070	57,952

Group balances receivable

	2019 B$'000	2018 B$'000
RHB Bank Berhad – Singapore Branch	3,618	6,980
RHB Bank Berhad – Bangkok Branch	4	4
Total	3,622	6,984

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

Government sukuk

	2019 B$'000	2018 B$'000
Government sukuk held		
- Original maturity less than one year	10,000	13,000
Total	10,000	13,000

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

Liquidity Risk

Liquidity risk is the risk of the Group 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 testings that are controlled using approved limits and benchmarks. Periodic reports are presented branch management level including Group Assets 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.

5.0 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems 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 safeguards 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 authorisation 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 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 in operating the business, responsible for managing operational risk and acting as the first line of defence.
- 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 defence respectively. The second line of defence also undertakes recovery actions, including business continuity measures in cases of incidents causing disruption to business activities.

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 utilised 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 the RCSA and KRIs.

Risk Mitigation and Controls
Risk mitigation strategies are used to minimise 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 categorised into five components, namely:
  a. Control environment – management oversight and risk culture, which sets 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 utilisation, delivered timely, confidentiality 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 Bank 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 form 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 lapses, 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 recognises 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 Technology Risk Management 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 to the industry moving towards the Internet as a channel for the delivery of banking services. The Group recognises 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 the various threat intelligence providers to obtain the latest cyber landscape information that will used for the risk mitigation. To further provide assurance that the Internet facing application systems are secured, the Group engaged reputable IT security service providers to perform periodic vulnerability assessment/penetration testing where weaknesses 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.

6.0 Interest Rate Risk in the Banking Book

Interest rate risk/rate of return risk in the banking book refers to the risk to the 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.

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess interest rate risk/rate of return risk in the banking book. They are computed based on the re-pricing 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 supports 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/rate of return 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 that 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 minimising risk to earnings and capital from changes in interest rate/benchmark rate, interest rate risk/rate of return risk to earnings is controlled using 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 also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risk/rate of return risk in the banking book in an environment of rapid financial market changes.

7.0 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 for incidents 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.