Basel II – Pillar 3 Disclosures
For the Year Ended 31ST December 2018

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Executive Summary

Pillar 3 disclosures are important reporting requirements as per AMBD & Basel II. AMBD is of the view that enhancing market transparency is best supported by the provision of disclosures based on a common framework. Pillar 3 disclosures (market discipline) act as an effective means of informing the market about the risk position of a bank in a consistent and comparable manner.

The disclosure is designed to complement the two other pillars of Basel 2 requirements, namely the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), which allow transparency on key pieces of information on the capital structure, risk exposure, risk assessment processes and capital adequacy of the Group.

The disclosure has been prepared in accordance with the Guideline rules laid out in the AMBD guideline (specified in Notice BU/N-4/2018/54) and be reported to AMBD on a semi-annual basis. This report consists of qualitative and quantitative information using tables in the following pages. An explanation of approaches adopted by the Group for measuring the minimum capital requirement are discussed in subsequent sections of this report.

1.0 Scope of Application

The name of the top corporate entity in the group, to which these regulations apply, is Bank Islam Brunei Darussalam Berhad ("BIBD") and its subsidiaries ("the Group"). The consolidated financial statements are prepared in accordance with the requirement of International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Autoriti Monetari Brunei Darussalam ("AMBD").

There is no difference between our accounting and reporting in the consolidation to our subsidiaries.

2.0 Capital Structure

The authorized, issued, and paid up capital of the Group comprises of 507,324,659 shares at BND 0.70 each as at 31st December 2018.

Table (1) - Consolidated Capital Structure as at 31st December 2018.

Tier 1 Capital	Amounts in BND '000s
Core capital (Tier 1 capital) before dividend	1,184,424
Less: Dividends to be proposed for the financial year	(88,202)
Core capital (Tier 1 capital) after dividend	1,096,222
Supplementary capital (Tier II capital)	21,720
Less: Investment in Associates and Subsidiaries	(7,080)
Total Regulatory capital after deductions (Capital Base)	1,110,862

The total capital base reported as per Audited Financials as of 31st December 2018 – BND1,110,862,000.

3.0 Capital Adequacy

The Group is subject to compliance to the capital adequacy guidelines stipulated by AMBD under the Capital Adequacy Framework dated 13 February 2019 (version 1.1) of which is in line with the framework of Basel Committee of Banking Supervision ("BCBS"). The approach taken by The Group to assess the adequacy of its capital is based on these guidelines. As stipulated by AMBD in its guidelines (specified in Notice BU/N-4/2017/39), the Group is required to maintain a minimum Tier 1 Capital Adequacy Ratio (CAR) of 5% and minimum total CAR of 10%.

The Group's strategy is to keep adequate capital levels all the time, to meet regulatory requirements while aiming to optimize the return to shareholder's capital. In accordance with the capital management strategy, the Group recognizes balance between efficiency, flexibility and adequacy in the consideration of capital management. The following considerations are detailed in Internal Capital Adequacy Assessment Process (ICAAP) which is under preparation:

- The development of a capital management strategy, which includes levels of capital buffers, contingent plans, the availability of capital deployed and the various forms of capital instruments (if any); and

- Simulating its capital measures using stress and scenario testing that includes the possibility of variability from planned outcomes, unexpected scenarios, and the impact of concentrations.

Table (2) - Capital Adequacy as at 31st December 2018- Basel II

Quantitative Disclosures	RWA Amount (BND 000's)	Capital Charged (BND 000's)
Capital Requirements		
1. Credit Risk – Standardized Approach	5,829,733	5,829,733
2. Market Risk – Standardized Approach	2,478	198
3. Operational Risk - Basic Indicator Approach	613,932	49,115
Total	**6,446,143**	**5,879,046**
Capital amount		
1. Tier 1	1,096,222	-
2. Total Regulatory Capital	1,110,862	-
Capital Ratio		
1. Tier 1	17.0%	-
2. Total Regulatory Capital	17.2%	-

Table (3) – Standard portfolio as at 31st December 2018- Basel II

Quantitative Disclosures^	RWA Amount (BND 000's)
Capital Requirements	
a) Claims on Sovereign and Central Banks	129,269
b) Claims on Public Sector Entities (PSEs)	-
c) Claims on Multilateral Development Banks (MDBs)	10,545
d) Claims on Banks and Financial Institutions Exposure	1,997,699
e) Exposure to Corporates	1,468,470
f) Regulatory Retail Portfolio (including claims on SMEs eligible 75% risk weight	1,277,902
g) Claims secured by Residential Property (qualifying 35% RWA only)	31,952
h) Equity Portfolio	25,638

^The disclosures are the standard portfolio as per required by AMBD as per the guidance on pillar 3 (paragraph 3.2.2)

4.0 Risk Management

The Group undertakes a wide variety of businesses and hence is required to be able to govern, monitor and report all risks in a clear manner. The main aspects of the Group's risk management are risk governance, risk architecture, approval mechanism, general processes, guidelines and policies in order to put in place an internal monitoring and control mechanism to cover all the risk and management spectrum.

The management of the main risks for the Group is specifically organized under the Risk Management Division, covering:

1. Credit Risk
2. Market Risk
3. Operational Risk
4. Liquidity Risk
5. Funding Risk
6. Profit Rate Risk in The Banking Book ("PRRBB")
7. Regulatory Risk
8. Legal Risk
9. Country Risk
10. Shariah Risk
11. Cyber Risk
12. Reputational Risk
13. Concentration Risk
14. Residual Risk

Risk management functional and governance structure
The Group has aligned its risk organisational responsibilities with the objective of ensuring a common view of risks across the Group. As a matter of good business practice and prudence, the Board of Director ("BOD") has delegated responsibility of the Group's core risk management functions reports to the Audit, Finance and Risk Committee ("AFRC") which is an independent and clearly segregated body from the business divisions.

The BOD via the Group's Executive committee ("ExCom") which is at the same level as the AFRC has also being delegated responsibility for the oversight of the Group credit risk throughout the Credit Risk Committee ("CRC"), Market Risk throughout the Asset & Liabilities Committee ("ALCO") and Operational Risk throughout the Enterprise Risk Management ("ERM").

Risk Management Division is a separate division, reporting to the CEO, responsible for managing the Group's risks, including the following:

- To conform with statutory, regulatory and internal risks requirements.
- To support management in building a healthy credit portfolio in line with the Group's overall strategy and risk appetite;
- To develop an increasing ability to recognise, measure and avoid or mitigate potential risk issues;

The Group has a strong management risk culture, where the Risk Management team plays and important role as 2nd line of defense, having in place the proper Risk Governance, Controls and Monitoring process. Given that, minimizing losses is as important as growing sustainable revenues. The Group's general objectives with respect to its risk appetite in its Risk Strategy are:

- To consistently exceed minimum regulatory capital requirements
- To ensure sufficient levels of liquidity and funding
- To manage the level of risk in the portfolio to an acceptable level
- To maintain favourable external debt ratings

In order to leverage financial strength, scale and market position to be recognized as the most valued financial services provider based in Brunei Darussalam. Annually, Risk Strategy ("RS") and Risk Appetite Statement ("RAS") are review and approved at Board level.

As per The Group Governance Framework, the RS and RAS monitoring will be accomplished through the ERM, on a monthly basis and AFRC on a quarterly basis. Every breached threshold must have an action plan with a specific time frame.

Sharia compliance is a cornerstone for The Group as the leading Islamic bank in Brunei Darussalam and in order to comply with The Group Corporate Governance, there is zero tolerance to any deviation with this respect. And always in full alignment with the Shariah Financial Supervisory Board ("SFSB").

5.0 Credit Risk

Credit risk arises as a result of customers' or counterparties' failure to meet their contractual obligations when they fall due. These obligations arise from the Group's direct financing operations, trade finance and investments undertaken by the Group. The Group's exposure to credit risk is primarily from its financing activities to retail, corporate borrowers', including small & medium enterprises ("SMEs"), financial institutions and Investment.

The Group has adopted the Standardized Approach (Basel) for measuring minimum capital requirement for credit risk.

Exposures after application of eligible credit risk mitigants, are multiplied by the specified risk weight to arrive at the Risk Weighted Asset (RWA). Off-balance sheet exposures are adjusted using product type specified Credit Conversion Factors (CCF) before determining the RWAs.

Retail credit exposures are managed on a product program basis. Credit product program are assessed jointly between credit risk and business units. Reviews on credit program are conducted on a regular basis to assess the performance of the portfolio.

Corporate credit risks are assessed by business units and evaluated/approved in accordance to the Group's Credit Risk Governance. Each borrower is assigned a credit rating (S&P Methodology) based on the assessment of relevant qualitative and quantitative factors including a borrower's financial position, types of facilities and proposed securities or collateral. Group wide hierarchy of credit approving authorities and committee structures (governance) are in place to ensure appropriate underwriting standards are enforced consistently within the Group.

Reviews are conducted on a regular basis with updated information on a borrower's financial position, market position, industry and economic condition coupled with conduct of the account. Corrective actions are taken when there are signs of credit deterioration.

Counterparty credit risk exposures are managed via counterparty limits either on a single name basis or counterparty group basis which adheres to the Guidance on Single Borrowing Limit issued by AMBD. The Group monitors and manages its exposures to counterparties on a day-today basis.

To avoid concentration of credit risk in its financing and advances portfolio, the Group imposes limits and related lending guidelines for:

- Sovereign;
- Economic sector and subsector;
- Single customer groups;
- Financial institutions (Banks and non-bank);
- Counterparties; and
- Collaterals.

The Group has established a dedicated team of Collections and Recovery to effectively manage vulnerable borrowers in the retail portfolio and a special asset group for the corporate portfolio. Special attention is given to the early warning and watchlist process, where all borrowers are frequently and intensively monitoring in order to accelerate the remedial action.

5.1 Past Due & Impaired Facilities

A financial asset is considered as past due if any amount is due under a contract (profit, principal, fee or other amount) or has not been paid in full at the date when it was due. An exposure is considered past due from the first day of missed payment, even when the amount of the exposure of the past due amount, as applicable, is not considered material.

Credit impaired financial asset: A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired, include observable data about the following events:

A. Significant financial difficulty of the issuer or the borrower;
B. A breach of contract, such as a default or past due event (more than 90 DPD);
C. The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession (s) that the lender(s) would not otherwise consider;
D. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
E. The disappearance of an active market for that financial asset because of financial difficulties
F. The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses

Individual Provision
Internally, the Group determines the individual provision by individually assessing all gross principal outstanding; Consumer Banking amount of B$500,000 and above, and Corporate Banking amount of B$1,000,000 and above, by analyzing a combination several effects of other trigger events which may lead to an individual impairment. Objective evidence that a financial asset or group of assets are impaired includes observable data that comes to the attention of the Group about the following events:

Mandatory Criteria:
- Past due more 90 days (pursuant to Basel II)

Other trigger events:
- Significant financial difficulty of the customer;
- Breach of contract, such as a default or delinquency in profit or principal payments;
- Probable information that a customer will enter bankruptcy;
- Adverse changes in the payment status of the customer (i.e. an increasing number of delayed payments)
- Local economic conditions that correlate with defaults on assets in a segment (i.e. a decrease in property prices in a relevant area or adverse changes in industry conditions that affect customers in a segment).

Collective Provision

Collective provisioning in the Group is done based on Expected Credit Loss (“ECL”) in line with IFRS9 and BCBS guidance on credit risk and accounting for the ECL. These provisions are calculated by multiplying the probability of default by the Loss given default and by the exposure at default.

5.2 Credit Risk Management Policy

The Group seeks to manage and control the most important part of its risk profile, that is Credit Risk, by adhering to the guidelines stipulated by AMBD (circular NO. BU/G-2/2018/10) and most importantly embed a culture of risk awareness throughout the organization. It is by way of these guidelines; the Group is aiming to address the following areas:

1. Establishing an appropriate credit risk environment
2. Operating under a sound credit granting process
3. Maintaining an appropriate credit administration, measurement and monitoring process
4. Ensuring adequate controls over credit risk

Policies and processes

The Credit Policy of the Group has been prepared with the broad objective of meeting the following goals:

1. Adhere to the guidelines or policies pronounced by AMBD; and
2. Hold a diversified good quality asset portfolio through risk-based lending.

In order to assess the credit risk associated with any financing proposal; the Group assesses a variety of risks relating to the borrower and the relevant industry. The Group evaluates obligor’s risk by considering:

1. The obligor’s financial position by analyzing its financial statements, history of financial performance, and cash flow adequacy;
2. The obligor’s relative business competitiveness, business strategy, market position and operating efficiency; and
3. The quality of management by analyzing their track record, payment record and financial performance.

The Group evaluates industry risk by considering:

1. Certain industry characteristics, such as position of the industry in the economy, cyclicality, seasonality and government policies relating to the industry;
2. The competitiveness of the industry; and
3. Certain industry statistics, including industry growth rate, return on asset, return on equity, operating margins and earnings stability.

5.3 Credit Ratings

Credit ratings enable the Group to accurately assess the quality of its credit portfolio and it is essential that correct ratings are applied to each credit on a pro-active basis. The Group has adopted a credit risk rating methodology by S&P that is Basel II compliant and is based on the following scale.

External Credit Assessment Institutions ("ECAI")

External credit assessments (or external ratings) on the counterparty (borrower) or specific securities issued by the counterparty (the issuer) are the basis for the determination of risk weights under the Standardised Approach for exposures to sovereigns, central banks, public sector entities, banks, corporates as well as certain other specific portfolios.

In accordance with the rules and principles laid down by the Basel Committee, AMBD has identified the following international rating agencies as ECAIs for the purposes of risk weighting exposures for capital adequacy purposes:

1. Moody's
2. Standard and Poor's ("S&P")
3. Fitch Rating

In respect of exposures/obligors that have multiple ratings from the eligible ECAIs for the purpose of risk weight computation, the Group is complying with the guideline as stipulated in the Capital Adequacy Framework by AMBD.

Internal Risk Rating Model

The Group noted that not all Credits are rated by the ECAI. In most case, for those that do not have ECAI rating, the Group has adopted models approach whereby the Group assign credit rating (internally) by subscribing the model from S&P using "S&P scorecard Model" to evaluate the credit risk.

On top of the credit proposal paper, the business unit will have to submit a templated format to generate the risk rating for each client. RMD will then review the input and either to support the proposed rating or to recommend to over-ride.

5.4 Credit Risk Related Disclosures

Table 4 (a) – Gross credit exposure by major type of credit exposure as on 31st December 2018

Segment (B$'000)	Total
Cash and short-term deposit and placement with financial institution	4,514,855
Investment	1,182,998
Financing and advance	3,754,902
Derivative financial asset	27,831
On-balance sheet total	9,480,586
Commitment and contingencies	153,057
Other Off- Balance Sheet exposures	373,507
Total Non-Funded	526,564
Grand Total	**10,007,150**

Table 4 (b) - Gross Credit Exposures by Geography as on 31st December 2018

Geographic Distribution (B$'000)	Brunei	Asia (ex-Brunei)	Others	Total
Cash and short-term deposit and placement with financial institution	331,049	3,532,246	651,560	4,514,855
Investment	-	1,083,602	99,396	1,182,998
Financing and advance	3,609,842	77,358	67,702	3,754,902
Derivative financial asset	2,026	9,141	16,664	27,831
On-balance sheet total	**3,942,917**	**4,702,347**	**835,322**	**9,480,586**
Commitment and contingencies	147,748	2,109	3,200	153,057
Other Off- Balance Sheet exposures	373,507	-	-	373,507
Total Non-Funded	**521,255**	**2,109**	**3,200**	**526,564**
Total	**4,464,172**	**4,704,456**	**838,522**	**10,007,150**

Table 4(c) – Net exposure by industry by major credit exposure as at 31st December 2018

Industry Segment (B$'000)	Cash and short-term and deposit and placement with financial institution	Balance with Autoriti Monetari Brunei Darussalam	Brunei Government Sukuk	Investment	Derivative financial asset	Financing and advance	Financing lease receivable	Other-asset	On-balance sheet total	Commitment and contingencies
Agriculture	-	-	-	-	-	8,770	-	-	8,770	3,471
Financial	4,512,752	-	-	537,412	27,831	48,053	-	-	5,126,048	156,278
Manufacturing	-	-	-	-	-	76,359	-	-	76,359	4,793
Transportation	-	-	-	71,062	-	949,107	-	-	1,020,169	19,951
Infrastructure	-	-	-	-	-	28,368	-	-	28,368	114,052
Traders	-	-	-	-	-	106,217	-	-	106,217	29,794
Service	-	-	-	75,092	-	113,120	12,620		200,832	30,647
Residential Property (personal)	-	-	-	-	-	722,491	-	-	722,491	20,830
Commercial (property development)	-	-	-	63,260	-	101,094	-	-	164,354	20,835
Tourism	-	-	-	-	-	6,006	-	-	6,006	3,713
Telecommunication and Information technology	-	-	-	-	-	1,024	-	-	1,024	4,525
Personal and consumption financing	-	-	-	-	-	1,079,406	-	-	1,079,406	62,978
Oil and Gas	-	-	-	-	-	442,436	-	-	442,436	54,697
Others	-	445,202	20,414	433,708	-	-	-	34,586	933,910	-
Total	**4,512,752**	**445,202**	**20,414**	**1,180,534**	**27,831**	**3,682,451**	**12,620**	**34,586**	**9,916,390**	**526,564**

Table 4 (d) - Net Credit Exposures by Residual Contractual Maturity as on 31st December 2018

Residual contractual maturity (B$'000)	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	No specific maturity
Cash, balance and placements with banks	2,497,449	2,500,678	2,500,678	-	-	-	-	-	-
Balance with AMBD	445,202	445,202	325,856	29,488	38,726	13,382	-	37,750	-
Placement with and financing and advance to banks	2,015,303	2,036,168	1,547,392	229,153	259,623	-	-	-	-
Government Sukuks	20,414	20,580	10,580	-	10,000	-	-	-	-
Investments	1,180,534	1,342,568	107,463	11,459	49,816	364,959	416,167	286,925	105,779
Derivatives financial assets	27,831	27,294	20,781	6,245	268	-	-	-	-
Financing and advances	3,682,451	4,427,008	881,295	231,614	428,635	1,361,395	583,628	940,441	-
Finance lease receivable	12,620	29,920	165	175	360	1,440	1,440	26,340	-
Other assets	34,586	34,586	19,417	3,337	1,181	2,478	3,631	4,542	-
Grand Total	**9,916,390**	**10,864,004**	**5,413,627**	**511,471**	**788,609**	**1,743,654**	**1,004,866**	**1,295,998**	**105,779**

Table 4 (e) – Impaired financing/facilities and non-performing financing/facilities by Industry Segment as on 31st December 2018

Industry Segments (B$'000)	Overdue			Allowance for losses	Total impaired Assets net of Provision	Other information
	Less than 90 days	90 days and above	Total			Write-offs
Retails	7,962	52,777	60,739	24,526	36,213	17,745
Corporate	22,691	60,443	83,134	25,016	58,118	12,077
Grand Total	**30,653**	**113,220**	**143,873**	**49,542**	**94,331**	**29,822**

Table 4 (f) – Impaired financing/facilities and past due financing/facilities by Geographic Distribution as on 31st December 2018

Geographic distribution (B$'000)	Brunei	Asia (ex-Brunei)	Total
At 1 January 2018	84,813	-	84,813
Impact on adoption of IFRS9 on 1 January 2018	78,096	-	78,096
Classified as impaired during the year	90,169	-	90,169
Reclassified as performing	(28,662)	-	(28,662)
Amount received	(50,721)	-	(50,721)
Amount written off against allowance	(29,822)	-	(29,822)
At 31 December 2018	**143,873**	**-**	**143,873**

Table 4 (g) – Movement in the allowance for losses on financing and advance

Movement in the allowance for losses on financing and advance (B$'000)	Total
Opening balance as at 31 December 2017	77,243
Impact on adoption of IFRS9 on 1 January 2018	11,001
Allowance made during the year	14,029
Amount written off during the year	(29,822)
At 31 December 2018	**72,451**

6.0 Credit Risk Mitigation

The Group use the following techniques to mitigate the credit risks to which it is exposed. The general requirements for the use of credit risk mitigation (CRM) and eligibility criteria, detailed methodologies and specific requirements follow AMBD framework dated 13 February 2019 (version 1.1):

1. Collateralised transactions; and
2. On-balance sheet netting.

The main types of collaterals taken by the Group currently are as follows:

- For mortgages – charges over residential properties;
- For auto financing – ownership claims over the vehicles financed;
- For commercial property financing – charges over the properties financed;
- For other financing – charges over business assets such as premises, inventories, assignment of receivables or under lien deposits; and
- Legally binding written guarantees.

Table 5 - Credit Risk Mitigation – Standardized Approach as on 31st December 2018

Standard portfolio^ (RWA BND '000)	Total exposure (after on-or off-balance sheet netting), after the application of haircuts	Covered by eligible financial collateral	Covered by guarantees/ credit derivatives	Total exposure
Sovereign	129,269	-	-	129,269
Multilateral Development Banks (MDBs)	10,545	-	-	10,545
Public Sector Entities	-	-	-	-
Banks	1,997,699	-	(155,583)	1,842,116
Corporate	1,468,470	-	-	1,468,470
Regulatory Retail	1,277,902	(3,412)	-	1,274,490
Residential Retail	31,952	-	-	31,952
Equity	25,638	-	-	25,638

^ The disclosures are the standard portfolio as per required by AMBD as per the guidance on pillar 3 (paragraph 3.2.2)

7.0 Counterparty Credit Risk

Counterparty credit risk ("CCR") is the risk that a counterparty to a transaction may default before completing the settlement period of the transaction. To date, this risk applies to FX transactions only (spot & outright). An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a replacement cost or outstanding loan amount that exceeds any collateral posted by the counterparty before the transaction(s) could be unwind, in the case of a counterparty default.

As part of the overall credit risk assessment, the credit limit is approved by CRC and by ExCom (depending on the approving amount) based on the financial strength, credit rating, country, industry and single name concentration limits while also balancing this with the whole borrower/counterparty relationship.

Estimating the exposure amount/pre-settlement risk is critical for calculating the capital requirements for CCR. The exposure under the CCR consist of two components: Potential future exposure ("PFE") and the Replacement cost ("RC").

The Group calculate the PFE by multiplying the total notional principal amount of the foreign exchange contracts book times the add on factor, split by residual maturity as follows: -

Residual Maturity	Add-on Factor
One year or less	2.0%
Over one year to five years	5.0%
Over five years	7.5%

The Group calculates the current RC of the contract by marking the contract to market value (marked to market), thus capturing the replacement cost without the need for estimation. The Group then adds up the PFE and the RC to get the final current exposure of the CCR.

Table 6 – Total Exposure at default for Counterparty Credit Risk as on 31st December 2018

Counterparty Credit Risk	Exposure Amount in BND'000s	RWA in BND'000s
Counterparty Credit Risk	150,368	45,963
Total Exposure amount	**150,368**	**45,963**

8.0 Market Risk

Overview

The Group uses the Standardized Approach to calculate the regulatory capital requirements related to market risk (covering profit rates, equity, foreign exchange, commodity and options). The Group currently does not hold trading positions or a "trading book", which is in line with its risk appetite.

Market risk is defined as the uncertainty of market value and earning from changes in profit rate, exchange rate, market prices and volatilities. The Group assumes market risk from trading and investment activities and from retail and corporate financing.

The Group's asset and liabilities profile can be characterized as that of a standard retail bank. Trading activities are negligible, with an investment portfolio of not more than 15% of the Group's total assets. Stress testing and sensitivity analysis are performed to assess the impact from changes in the yield curve for income on a monthly basis and for market value on a quarterly basis.

Governance

Market risk of the Group is managed by the Market Risk unit of the Risk Management Division. Market risk report is presented monthly to the Group's ALCO and quarterly to AFRC committee. ALCO provides general guidelines to the parameters and limits applied in deriving the report's outcome. ALCO maintains the policy and procedures with regards to the market risk framework that are consistent and in-line with the short and long-term strategic goals and directions of the Board of Directors.

Table 7 - Total Capital Requirement for Market Risk under Standardized Approach as on 31st December 2018

Total Capital Requirement for Market Risk Under Standardized Approach as on 31 December 2018		
Market Risk	**Amount in BND'000s**	**Amount in BND'000s (RWA)**
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	198	2,478
Commodity risk	-	-
Total Capital Requirement	**198**	**2,478**

8.1 Overview of the subsidiary's market risk

All the subsidiary's financing assets are fixed rate. However, the subsidiary's deposits from customers are subject to repricing risk resulting in profit or loss to the subsidiary.

The subsidiary is exposed to the following risks
Rate of return or profit risk: risk that changes in prevailing profit rate for deposits will adversely affect the earnings stream of the subsidiary, thus resulting in reduced net financing income;

Price Risk: The potential for the decline in the price of an asset or security relative to the rest of the market. It excludes market risk, or the potential for an entire market to go down in value. The objective of the subsidiary's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a consistent profile with the subsidiary's approved risk appetite.

Market risk governance and management
The board of the subsidiary reviews these risks at least annually, and more often as conditions may warrant. This helps to provide sound growth, profitable and balanced without sacrificing the quality of service and manage to maintain policies and procedures that is consistent with the Group's strategic goals.

8.2 Foreign Exchange Risk of the Group

Trading positions
The Group controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

Overall (trading and non-trading positions)
To mitigate the risk of loss due to foreign currency rate changes the Group will match its positions as closely as possible.

Trading is always conducted to ensure that internal set limits are adhered to.

Positions will be analyzed on a daily basis, whereby a currency risk report will be produced. If there is a breached against the policy, a report will be generated for the Treasurer and the Chief Risk Officer. The foreign currency position is presented for the Board of Directors at the end of each quarter.

Foreign exchange risk of the subsidiaries
The subsidiaries' nature of business does not maintain any trading positions and to have significant exposure to foreign exchange risk.

9.0 Operational Risk

The Group is adopting the basic indicator approach (Basel) at present, for calculation of regulatory capital requirements for operational risk. The capital charge is calculated fixed at 15% to the three years average of positive gross income, which complied with AMBD Capital Adequacy Framework February 2019 (version 1.1).

9.1 Operational Risk Management Framework

Operational risks can arise from all business lines and from all activities carried out by the Group, couple with the external events such as natural disasters or epidemics. Operational risks are systematically identified at the unit level. A total of 40 Risk Coordinators are appointed from each unit and are responsible for the identification analysis and escalation of all the events or situation to the operational risk areas. This approach maintains an effective control environment arising from those activities as their first line of defence responsibilities.

Operational risk exposures can take various forms, and the Group seeks to manage them in accordance with standards that drive systematic risk identification, assessment, control and monitoring. These standards are reviewed regularly to ensure their ongoing effectiveness. To support the systematic identification of material operational risk exposures associated with a given process, the Group classifies them into the following risk types:

- People
- Process
- System
- External

Operational risk exposures are rated 'high', 'medium' or 'low' in accordance with defined risk assessment criteria. Risks that are outside the RAS and key risk indicators ("KRI") receive a different level of management attention and are reported to Senior Management (Ad-Hoc Basis) throughout ERM on a monthly and AFRC quarterly basis. Significant risk events and their possible financial losses are analysed to identify the root cause of failure coupled with remediation and future mitigation. Actual operational losses are recorded.

As the second line of defence, Operational Risk Management ("ORM") unit of the Risk Management Division is responsible for setting and maintaining the standards for operational risk management and control. ORM also creates awareness of possible risk issues in business units and provides risk awareness training and workshops.

The ERM Committee oversees the management of operational risks across the Group, supported by all business unit heads. The ERM Committee operates on the basis of terms of reference derived from the Operational Risk Management mandate/framework which is approved by the Leadership Forum.

9.2 Overview of the subsidiary's operational risk

A set of control standards for operational risk management has been developed with the objective of ensuring that operational risks within the subsidiary are identified and managed in a structured and consistent manner.

(a) ORIC committee
The subsidiary's board, through the Operational Risk and Internal Controls Committee ("ORIC"), is responsible for the ongoing monitoring of operational risks and the development, implementation and monitoring of established internal controls to address the operational risks, by monitoring identified key risk indicators, measuring board approved risk appetite limit against near-miss, potential loss and actual-loss events, monitoring of identified early warning signals indicators and operational risk incident reports. The committee is also responsible to ensure timely closures of audit points raised by internal and external auditors.

(b) Risk controls self-assessment
All divisions in the subsidiary have established internal controls framework ("ICF"), requiring appropriate segregation of duties, reconciliation and monitoring of transactions. The ICF is updated at least annually, as part of the risk controls self-assessment exercise, where each department will assess its level of compliance to the ICF, identify control gaps and report its findings to ORIC.

10.0 Equity position in the Banking Book

The Group is exposed to equity price risk on its equity investments that are carried at fair value through other comprehensive income.

Table 8 – Equity position for the year as at 31st December 2018

Equity Position (B$'000)	Total
Investment in associate	20,816
Investment in Joint Venture	18,042
Grand Total	**38,858**

11.0 Profit Rate Risk in Banking Book (PRRBB)

Profit rate risk arises from the possibility that changes in market rates will affect future profitability, cash flows or the fair values of financial instruments. Profit Rate Risk in the Banking Book (PRRBB) is defined as the exposure of the non-trading financial instruments to market rates.

The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period.

For measuring the overall profit sensitivity in the Banking book, the Group conducts stress tests on the sensitiveness of the assets and liabilities by simulating 100/300/800 basis points parallel shifts to the yield curve and assessing the impact on its Net profit Income and Capital.

Table 9 - following impact on the net profit income and regulatory capital for the year of a movement in interest yield curves as at 31st December 2018.

Group (BND'000)	1% increase	1% decrease	3% increase	3% decrease	8% increase	8% decrease
2018	9,094	(9,094)	27,282	(27,282)	72,752	(72,752)