Audited financial statements
and other financial information

United Overseas Bank Limited
- Brunei Darussalam Branch

For the year ended 31st December 2018

Contents

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Ernst & Young
Room 309A, 3rd Floor
Wisma Jaya, Jalan Pemancha
Bandar Seri Begawan BS8811
Negara Brunei Darussalam

PO Box 2162
Bandar Seri Begawan BS8674
Negara Brunei Darussalam

Tel: +673 223 9139
Fax: +673 223 9142
inquiries.eybrunei@bn.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of United Overseas Bank Limited

Opinion

We have audited the financial statements of **United Overseas Bank Limited – Brunei Branch** ("the Branch"), which comprise the statement of financial position as at 31st December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity/head office account and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

In our opinion,

a) the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31st December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the provisions of the Brunei Darussalam Companies Act, Cap. 39 ("the Act") and International Financial Reporting Standards according to the best of our information and the explanations given to us and as shown by the books of the Branch.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the branch management certification set out on page 4; corporate governance and Pillar 3 public disclosures included in the annual report.

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of United Overseas Bank Limited

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Companies Act, Cap. 39 and International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of United Overseas Bank Limited

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

ERNST & YOUNG
Public Accountants

LIM TECK GUAN
Registered Public Accountant

Brunei Darussalam
30th March 2019

CERTIFICATION

We, the undersigned, being the Country Manager and the Finance Manager of United Overseas Bank Limited (Brunei Darussalam Branch) do hereby state that, in our opinion, the financial statements of the Branch set out in pages 5 to 53 are properly drawn up in accordance to the provisions of the Brunei Darussalam Companies Act, Cap.39 (the "Act") and International Financial Reporting Standards ("IFRSs"), 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 2018, and of the results, changes in equity/head office account and cash flows for the financial year ended on that date.

Abdul Razak Abdul Malek	***Alester Yong Khong Lok***
Country Manager	***Finance Manager***
Date: 30th March 2019	**Date: 30th March 2019**

UNITED OVERSEAS BANK LIMITED
(Incorporated in Singapore)
BRUNEI DARUSSALAM BRANCH
(Registered in Brunei Darussalam as a Company incorporated outside Brunei Darussalam)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	31-Dec-2018 B$'000	31-Dec-2017 B$'000	Change %
ASSETS				
Cash and Short Term Funds	4	1,281	1,672	(23.38)
Balances with Autoriti Monetari Brunei Darussalam	5	15,642	20,859	(25.01)
Government Sukuk	6	22,388	12,500	79.10
Loans and advances	7	87,913	93,550	(6.02)
Group balances receivable	8	134,342	168,883	(20.45)
Plant and equipment	9	191	230	(16.96)
Other assets	10	586	1,318	(55.54)
Deferred tax asset	15	189	-	100.00
Total Assets		262,532	299,012	(12.20)
LIABILITIES AND CAPITAL FUNDS				
Deposits from customers	11	164,883	205,249	(19.67)
Deposits from banks and other financial institutions	12	2,910	2,989	(2.64)
Group balances payable	13	4,027	2,887	39.49
Other liabilities	14	1,345	1,922	(30.02)
Taxation	15	-	74	(100.00)
Total Liabilities		173,165	213,121	(18.75)
EQUITY				
Assigned Capital	16	30,000	30,000	-
Statutory Reserve Fund	17	28,004	26,266	6.62
Prudential Reserve	17	755	-	100.00
Retained Profits		30,608	29,625	3.32
Total Equity		89,367	85,891	4.05
Total Liabilities and Equity		262,532	299,012	(12.20)

		31-Dec-2018 %	31-Dec-2017 %
CAPITAL ADEQUACY			
Core capital ratio (Tier 1 capital)	30	53.41	47.81
Total capital ratio	30	53.68	48.91

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

Abdul Razak Abdul Malek
Country Manager
Date: 30th March 2019

Alester Yong Khong Lok
Finance Manager
Date: 30th March 2019

UNITED OVERSEAS BANK LIMITED
(Incorporated in Singapore)
BRUNEI DARUSSALAM BRANCH
(Registered in Brunei Darussalam as a Company incorporated outside Brunei Darussalam)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the financial year ended 31 December 2018

	Note	2018 B$'000	2017 B$'000	Change %
Interest income	19	8,140	8,263	(1.49)
Less: Interest expense	19	(1,272)	(1,429)	(10.99)
Net interest income		6,868	6,834	0.50
Fee income	20	970	916	5.90
Net trading income	21	287	342	(16.08)
Other operating income	22	136	151	(9.93)
Total operating income		8,261	8,243	0.22
Less:				
Personnel expenses	23	(2,555)	(2,568)	(0.51)
Management fees	24	(12)	(12)	-
Other overhead expenses	25	(1,366)	(1,453)	(5.99)
Operating profit before impairment charges		4,328	4,210	2.80
Allowance for impairment	26	(3,869)	(971)	298.45
Profit before income tax		459	3,239	(85.83)
Income tax expense	27	-	(59)	100.00
Profit after income tax		459	3,180	(85.57)
Other comprehensive income		-	-	-
Profit/Total comprehensive income for the financial year		459	3,180	(85.57)

	31-Dec-2018 %	31-Dec-2017 %
Return on Assets (ROA) – Before Tax	0.17	1.08
Return on Assets (ROA) – After Tax	0.17	1.06
Return on Equity (ROE) – After Tax	0.51	3.70

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

UNITED OVERSEAS BANK LIMITED
(Incorporated in Singapore)
BRUNEI DARUSSALAM BRANCH
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STATEMENT OF CHANGES IN EQUITY/HEAD OFFICE ACCOUNT
As at 31 December 2018

	Note	Assigned capital B$'000	Statutory reserve fund B$'000	Retained profits B$'000	Prudential Reserve B$'000	Total B$'000
Balance as at 1st January 2017		30,000	24,676	28,035	-	82,711
Profit/Total other comprehensive income for the financial year		-	-	3,180	-	3,180
Transfer to statutory reserve		-	1,590	(1,590)	-	-
Balance as at 31st December 2017		30,000	26,266	29,625	-	85,891
Balance as at 1st January 2018 as previously reported		30,000	26,266	29,625	-	85,891
Adoption of IFRS 9 (net of tax)	2.4 (i)	-	-	3,017	-	3,017
Transfer to Statutory reserve		-	1,509	(1,509)	-	-
Restated balance at 1st January 2018		30,000	27,775	31,133	-	88,908
Profit/Total other comprehensive income for the financial year		-	-	459	-	459
Transfer to Prudential reserve for credit losses		-	-	(755)	755	-
Transfer to statutory reserve		-	229	(229)	-	-
Balance as at 31st December 2018		30,000	28,004	30,608	755	89,367

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

UNITED OVERSEAS BANK LIMITED
(Incorporated in Singapore)
BRUNEI DARUSSALAM BRANCH
(Registered in Brunei Darussalam as a Company incorporated outside Brunei Darussalam)

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2018

	Note	2018 B$'000	2017 B$'000
Cash flows from operating activities			
Profit before income tax		**459**	3,239
Adjustments for:			
- Depreciation		**68**	63
- Stage 1 and 2 expected credit losses		**(264)**	-
Changes in:			
- Balances with Autoriti Monetari Brunei Darussalam		**1,771**	2,143
- Loans and advances		**9,027**	2,259
- Other assets		**727**	(625)
- Deposits from customers		**(40,366)**	(44,126)
- Deposits from banks and other financial institutions		**(79)**	528
- Group balances payable		**1,140**	(2,205)
- Other liabilities		**(755)**	718
Income tax paid	**15**	**(74)**	(20)
Net cash (used in)/generated from operating activities		**(28,346)**	(38,026)
Cash flow from investing activities			
(Acquisition)/Sale of Government Sukuk, net		**(10,000)**	5,350
Acquisition of plant and equipment		**(29)**	(110)
Net cash (used in)/from investing activities		**(10,029)**	5,240
Net (decrease)/increase in cash and cash equivalents		**(38,375)**	(32,786)
Cash and cash equivalents at beginning of year		**179,293**	212,079
Cash and cash equivalents at end of year		**140,918**	179,293
Cash and cash equivalents:			
Cash and short term funds	**4**	**1,281**	1,672
Balances with Autoriti Monetari Brunei Darussalam	**5**	**5,295**	8,738
Group balances receivable	**8**	**134,342**	168,883
		140,918	179,293

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

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 CORPORATE INFORMATION

United Overseas Bank Limited, incorporated in Singapore has the registered office of its Brunei Darussalam Branch at Unit 10 & 11, Bangunan D'Amin Jaya Complex, Kg Kiarong, Bandar Seri Begawan - BE1318, Brunei Darussalam.

The Branch is a segment of United Overseas Bank Limited and is not a separately incorporated legal entity.

The Branch is primarily involved in the business of banking in all aspects.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

These financial statements were authorized for issue by the management of the Branch on 30 March 2019.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention, except as otherwise stated.

The accounting policies and methods of computation have been applied consistently to all periods presented in these financial statements unless otherwise stated.

2.3 Functional and presentation currency

These financial statements are presented in Brunei dollar (B$), which is the Branch's functional currency, and to the nearest thousand, unless otherwise stated.

2.4 Changes in significant accounting policies

On 1 January 2018, the Branch adopted the relevant new or amended IFRS that are mandatory for application from that date. Changes to the Branch's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS:

- IFRS 15 Revenue from Contracts with Customers; and
- IFRS 9 Financial Instruments.

Except for the adoption of IFRS 9, the adoption of the rest of the new or amended IFRS did not result in substantial changes to the accounting policies of the Branch and had no material effect on the amounts reported for the current or prior financial years.

Summary of impact on adoption of IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a five-step approach for recognising revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to the customer that deliver benefit from the customer's perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer.

The adoption of IFRS 15 does not have material effect on the Branch's financial statements.

Summary of quantitative impact on adoption of IFRS 9 Financial Instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- the remaining amount of change in the fair value is presented in profit or loss.

On initial recognition, financial assets of the Branch are classified as measured 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:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and interest.

Deposits are the Branch's sources of debt funding. Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

There is no impact on the classification and measurement of the Branch's financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Branch recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branch expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Branch if the commitment is drawn down and the cash flows that the Branch expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Branch expects to recover.

(i) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Branch's financial assets and financial liabilities as at 1 January 2018.

	Note	Measurement category Old IAS 39	Measurement category New IFRS 9	Carrying amount as at 1 January 2018 Old IAS 39 B$'000	Carrying amount as at 1 January 2018 New IFRS 9 B$'000
Financial assets					
Cash and Short Term Funds	4	Loans and receivables	Amortised cost	1,672	1,672
Balances with Authoriti Monetari Brunei Darussalam	5	Loans and receivables	Amortised cost	20,859	20,848
Government sukuk	6	Loans and receivables	Amortised cost	12,500	12,409
Loans and advances	7	Loans and receivables	Amortised cost	93,550	92,895
Group balances receivable	8	Loans and receivables	Amortised cost	168,883	168,883
Other assets	10	Loans and receivables	Amortised cost	1,318	1,318

Financial Liabilities					
Deposits from customers	**11**	Amortised cost	Amortised cost	205,249	205,249
Deposits from banks and other financial institutions	**12**	Amortised cost	Amortised cost	2,989	2,988
Group balances payable	**13**	Amortised cost	Amortised cost	2,887	2,887
Other liabilities	**14**	Amortised cost	Amortised cost	1,922	1,658

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount 31 Dec 2017	**Reclassification**	**Remeasurement**	**IFRS 9 carrying amount 1 Jan 2018**
Financial assets				
Amortised cost				
Cash and Short Term Funds				
Opening balance	1,672	-	-	1,672
Remeasurement: ECL	-	-	-	-
Closing balance	1,672	-	-	1,672
Balances with Autoriti Monetari Brunei Darussalam				
Opening balance	20,859	-	-	20,859
Remeasurement: ECL	-	-	(11)	(11)
Closing balance	20,859	-	(11)	20,848
Government sukuk				
Opening balance	12,500	-	-	12,500
Remeasurement: ECL	-	-	(91)	(91)
Closing balance	12,500	-	(91)	12,409
Loans and advances				
Opening balance	93,550	-	-	93,550
Remeasurement: ECL	-	-	(655)	(655)
Closing balance	93,550	-	(655)	92,895
Group balances receivable				
Opening balance	168,883	-	-	168,883
Remeasurement: ECL	-	-	-	-
Closing balance	168,883	-	-	168,883
Other assets				
Opening balance	1,318	-	-	1,318
Remeasurement: ECL	-	-	-	-
Closing balance	1,318	-	-	1,318
Total change to financial asset balance	298,782	-	(757)	298,025

Financial Liabilities				
Deposits from customers				
Opening balance	205,249	-	-	205,249
Remeasurement	-	-	-	-
Closing balance	205,249	-	-	205,249
Deposits from banks and other financial institutions				
Opening balance	2,989	-	-	2,989
Remeasurement	-	-	(1)	(1)
Closing balance	2,989	-	(1)	2,988
Group balances payable				
Opening balance	2,887	-	-	2,887
Remeasurement	-	-	-	-
Closing balance	2,887	-	-	2,887
Other liabilities				
Opening balance	1,922	-	-	1,922
Remeasurement	-	-	(264)	(264)
Closing balance	1,922	-	(264)	1,658
Total change to financial liabilities balance	213,047	-	(265)	212,782

Reserves and retained profits

	IAS 39 carrying amount 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 Jan 2018
Statutory reserve fund				
Opening balance under IAS 39	26,266	-	-	26,266
Transfer to statutory reserve due to adoption of IFRS 9	-	-	1,509	1,509
Closing balance under IFRS 9	26,266	-	1,509	27,775
Retained profits				
Opening balance under IAS 39	29,625	-	-	29,625
Reversal of impairment under IAS39	-	-	3,850	3,850
Adoption of IFRS 9	-	-	(1,022)	(1,022)
Deferred tax benefit relating to the recognition of IFRS 9	-	-	189	189
Transfer to statutory reserve due to adoption of IFRS 9	-	-	(1,509)	(1,509)
Closing balance under IFRS 9	29,625	-	1,508	31,133
Total change to reserves and retained profits	55,891	-	3,017	58,908

(ii) Loss/ impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the aggregate opening loss/ impairment allowance on loans, advances and financing and debt instruments of the Branch under IAS 39 Financial Instruments: Recognition and measurement and provision for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the allowance for ECL under IFRS 9 Financial Instruments.

	IAS 39 carrying amount 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 Jan 2018
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)				
Cash and cash short term funds	1,672	-	-	1,672
Balances with Autoriti Monetari Brunei Darussalam	20,859	-	(11)	20,848
Government Sukuk	12,500	-	(91)	12,409
Loans and advances	93,550	-	(655)	92,895
Group balances receivable	168,883	-	-	168,883
Other assets	1,318	-	-	1,318
Commitments and contingencies	95,841	-	-	95,841
Total	394,623	-	(757)	393,866

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative information have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effect of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Branch has assumed that credit risk on the asset had not increased significantly since its initial recognition.

2.5 Use of estimates and judgements

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

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

2 BASIS OF PREPARATION (continued)

2.5 Use of estimates and judgements (Continued)

Preparation of the financial statements involves making certain assumptions and estimates. This often requires management's judgement for the appropriate policies, assumptions, inputs and methodologies to be used. As judgements are made based on information available at the time the financial statements are prepared, the ultimate results could differ from those disclosed in the statements due to subsequent changes in the information. The following provides a brief description of the Branch's critical accounting estimates that involve management's judgement.

(i) **Allowance for impairment of financial assets**
Allowance for impairment of financial assets is determined in accordance with note 3.3 (ix). This requires management's experience and significant judgement. The process involves assessing various factors such as economic indicators, business prospects, timing and amount of future cash flows and liquidation proceeds from collateral.

(ii) **Classification of financial assets**
Classification of financial assets is determined in accordance with Note 3.3 (i). On adoption of IFRS 9, management judgement was required concerning business model assessment and determination of whether contractual cash flows can be considered as solely payments of principal and interest.

(iii) **Fair valuation of financial instruments**
Valuation of financial instruments that are not quoted in the market or with complex structures requires considerable judgement of management in selecting the appropriate valuation models and data inputs.

(iv) **Income taxes**
Income taxes are provided in accordance with Note 3.4. Provision for these taxes involves interpretation of the tax regulations on certain transactions and computations. In cases of uncertainty, provision is estimated based on the technical merits of the situation.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

3.1 Depreciation of plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognised net within other income in profit or loss.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Branch will obtain ownership by the end of the lease term and is not depreciated.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Depreciation of plant and equipment (continued)

The estimated useful lives of the various categories of plant and equipment are as follows:

	No. of years
Furniture, fixtures, equipment and computer software	5 - 10
Motor vehicles	5

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

3.2 Foreign currency transactions

On initial recognition, transactions in foreign currencies are recorded in the functional currency of the Branch at the exchange rate ruling at the transaction date. Subsequent to initial recognition, monetary assets and monetary liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at reporting date are recognised in the statement of profit or loss.

3.3 Financial assets and financial liabilities

(i) Classification of financial assets and financial liabilities

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL").

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.

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

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Branch may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Branch may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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 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 management 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. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

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;
- leverage features;

- prepayment and extension features;
- terms that limit the Branch's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodic reset of interest rates).

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 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.

Financial instruments are recognised initially at their fair value which is generally the transaction price, reduced by loss allowance for financial assets at amortised cost. Directly attributable transaction costs are included as part of the initial cost for financial instruments that are not measured at fair value through profit or loss.

(ii) Measurement

Policy applicable from 1 January 2018

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

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 profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities

The Branch classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL. The Branch derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Classification

Policy applicable before 1 January 2018

Financial assets and financial liabilities are classified as follows:

At fair value through profit or loss
Financial instruments are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition.

Financial instruments are classified as held for trading if they are acquired for short-term profit taking. Financial derivatives with positive and negative fair values are presented as assets and liabilities in the Statement of Financial Position respectively and are classified as held for trading unless they are designated as hedging instruments.

Financial instruments are designated as fair value through profit or loss if they meet the following criteria:

- the designation eliminates or significantly reduces the inconsistent accounting treatment that would otherwise arise from measuring the assets or liabilities on a different basis;
- the assets and liabilities are managed on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative that would otherwise require bifurcation.

Held-to-maturity
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Branch has the intention and ability to hold the assets till maturity.

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-sale
Non-derivative financial assets that are not classified into any of the preceding categories and are available for sale are classified in this category.

Non-trading liabilities
Non-derivative financial liabilities that are not held for active trading or designated as fair value through profit or loss are classified as non-trading liabilities.

(iv) Measurement

Policy applicable before 1 January 2018

Initial measurement
Financial instruments are recognized initially at their fair value, which is generally the transaction price. Directly attributable transaction costs are included as part of the initial cost for financial instruments that are not measured at fair value through profit or loss.

Subsequent measurement

Financial instruments classified as held for trading and designated as fair value through profit or loss are measured at fair value with fair value changes recognised in the statement of profit or loss.

Available-for-sale assets are measured at fair value with fair value changes taken to the fair value reserve and subsequently to the income statement upon disposal or impairment of the assets.

All other financial instruments are measured at amortised cost using the effective interest method less allowance for impairment.

Interest and dividend income on all non-derivative financial instruments at fair value through profit or loss are recognised separately from fair value changes.

(v) **Fair value determination**

Fair values of financial assets and financial liabilities with active markets are determined based on the market bid and ask prices respectively at the reporting date. For financial instruments with no active markets, fair values are established using valuation techniques such as making reference to recent transactions or other comparable financial instruments, discounted cash flow method and option pricing models. Valuation inputs include spot and forward prices, volatilities, correlations and credit spreads.

(vi) **Recognition and derecognition**

Financial instruments are recognised when the Branch becomes a party to the contractual provision of the instruments.

All regular way purchases and sales of financial assets that require delivery within the period generally established by regulation or market convention are recognised on the settlement date.

Financial instruments are derecognised when the contractual rights to cash flows and risks and rewards associated with the instruments are substantially transferred, cancelled or expired. On derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the accumulated gain or loss that has been recognised in equity are taken to the statement of profit or loss.

(vii) **Offsetting**

Financial assets and financial liabilities are offset and presented net in the Statement of Financial Position if there is current, unconditional and legally enforceable right and intention to settle them simultaneously or on a net basis.

(viii) **Financial Derivatives**

Financial derivatives with positive and negative fair values are presented as assets and liabilities in the Statement of Financial Position respectively.

(ix) **Impairment**

Policy applicable from 1 January 2018

Loans, debt assets, undrawn loan commitments and financial guarantees that are not measured at FVPL are subject to credit loss provisioning which is made on an expected loss basis, point-in-time, forward-looking and probability-weighted. Where there is no significant increase in credit risk since initial recognition, expected credit loss (ECL) representing possible default for the next 12 months is required (Stage 1). Lifetime ECL is required for non-credit-impaired financial assets with significant increase in credit risk since initial recognition (Stage 2) and credit-impaired financial assets (Stage 3).

The Branch considers a range of qualitative and quantitative parameters to assess whether a significant increase in credit risk since initial recognition has occurred. Parameters such as changes in credit risk ratings, delinquency, special mention, behavioural score cards and non-investment grade status are considered where available and relevant. Exposures are considered credit-impaired if they are past due for 90 days or more or exhibit weaknesses which are likely to jeopardise repayments on existing terms. The definition of default is consistent with that used for risk management purposes.

Exposures with significant increase in credit risk are transferred from Stage 1 to Stage 2. Exposures are transferred back to Stage 1 when they no longer meet the criteria for a significant increase in credit risk. Exposures that are credit-impaired are classified as Stage 3 and could be upgraded to Stage 1 or Stage 2 if supported by repayment capability, cash flows and financial position of the borrower and it is unlikely that the exposure will be classified again as credit-impaired in the future.

Although the Branch leverages its Basel credit risk models and systems, modifications are required to ensure that outcomes are in line with IFRS 9 ECL requirements. Such modifications include transforming regulatory probabilities of default (PD), loss given default (LGD) and exposure at default (EAD), considering forward-looking information, discount rate and discounting period. Macro-economic variables considered include interest rates, property price indices, unemployment rates, consumer price indices, gross domestic products and equity price indices.

ECL is computed by discounting the product of PD, LGD and EAD to the reporting date at the original effective interest rate or an approximation thereof. The ECL is adjusted with a management overlay where considered appropriate.

Financial assets in Stage 1 and Stage 2 are assessed for impairment collectively while exposures in Stage 3 are individually assessed. Those collectively assessed are grouped based on similar credit risks and assessed on a portfolio basis. ECL is recognised in the income statement.

Financial assets are written off when the prospect of recovery is considered poor or when all avenues of recovery have been exhausted.

Policy applicable before 1 January 2018

Individual impairment

Financial assets, other than those measured at fair value through profit or loss, are subject to impairment review at each reporting date. Impairment loss is recognised when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

Financial assets that are individually significant are assessed individually. Those not individually significant are grouped based on similar credit risks and assessed on a portfolio basis.

For financial assets carried at amortised cost, the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The loss is recognised in the statement of profit or loss.

For available-for-sale assets, impairment loss is determined as the difference between the assets' cost and the current fair value, less any impairment loss previously recognised in the statement of profit or loss. The loss is transferred from the fair value reserve to the income statement. For available for sale equity instruments, subsequent recovery of the impartment loss is written back to the fair value reserve.

Financial assets are written off when all avenues of recovery have been exhausted.

Collective impairment

Collective impairment is made for estimated losses inherent in but not currently identifiable to the individual financial assets. Loans and advances and held-to-maturity financial assets that are not individually significant, or individually significant but not found to be impaired, are collectively assessed for impairment by grouping together loans and advances and held-to-maturity financial assets with similar risk characteristics. The allowance is made based on management's experience and judgement and taking into account country and portfolio risks.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Tax

Income tax

Income tax expense comprises current and deferred tax.

Current tax

Current tax is measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and tax law applied are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax is measured at the tax rate that is expected to apply when the assets are realised or the liabilities are settled, based on the tax rate and tax law that have been enacted or substantively enacted by the reporting date.

Deferred tax is not provided for temporary differences arising from initial recognition of an assets or liability that does not affect accounting or taxable profit, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized. Where gains and losses are recognized directly to equity, the related deferred tax is also taken to equity.

3.5 Recognition of income

(i) Interest income

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Branch estimates future cash flows considering all contractual terms of the financial instruments, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are integral part of the effective interest rate. Transactions cots include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note 3.3 (ix).

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Branch's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Policy applicable before 1 January 2018

Interest income is recognized using the effective interest method.

(ii) Fees and commission income

Fees and commission income is recognized when the services are rendered. For services that are provided over a period of time, fee and commission income is recognized over the service period.

3.6 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events and an outflow of resources to settle the obligation is probable and a reliable estimate can be made. At each reporting date, provisions are reviewed and adjusted to reflect the current best estimate. When an outflow of resources to settle the obligation is no longer probable, the provision is reversed.

3.7 Personnel expenses

Base pay, cash bonuses, allowances, commissions and defined contributions under regulations are recognised in the statement of profit or loss when incurred. Leave entitlements are recognised when they accrue to employees based on contractual terms of employment.

3.8 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and other financial institutions (including the central bank) as well as highly liquid financial assets with original maturities of three months or less from the acquisition date 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.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.9 Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.10 Impairment of non-financial assets

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

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

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

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

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

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

3.11 Undrawn credit facilities

Undrawn credit facilities (both revocable and irrevocable) are recorded under commitments and the amount is adjusted for subsequent drawdowns.

3.12 Contingent liabilities

Contingent liabilities are only recognised when it is probable that an obligation has arisen. The amount of any provision is the best estimate of the amount required to fulfil the obligation.

3.13 Interpretations and amendments to published standards

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Branch has adopted all the new and revised standards which are effective for financial years beginning on or after 1 January 2018. The effect of adoption of these standards are disclosed under note 2.4 to the financial statements.

<u>Standards issued but not yet effective</u>

The Branch has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
IFRS 16 'Leases'	*1 January 2019*
IFRIC 23 'Uncertainty over Income Ta Treatments	*1 January 2019*
Amendments to IFRS 9' Prepayment Features with Negative Compensation	*1 January 2019*
Amendments to IAS 28, 'Long-term interests in Associates and Joint Ventures	*1 January 2019*
Amendments to IFRS 10 and IAS 28, 'Sale or Contribution of Assets between an investor and its Associate or Joint Venture	*To be determined*

In relation to IFRS 16 leases, based on the information currently available, the Company estimates that it will recognise the right of use assets and lease liabilities of B$298 thousands as at 31 December 2018. The statement of profit or loss for the year ended 31 December 2019 will recognise the depreciation expense and interest expense of B$153 thousands and B$10 thousands respectively instead of rental expense of B$140 thousands.

The Branch does not expect that adoption of the other accounting standards or interpretations will have a material impact on the Branch's financial statements.

4 CASH AND SHORT TERM FUNDS

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Cash in hand	**895**	1,184
Balances with banks and other financial institutions	**386**	488
Less: Allowance for ECL	**-**	-
Total	**1,281**	1,672

5 BALANCE WITH AUTORITI MONETARI BRUNEI DARUSSALAM

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Real Times Gross Settlement System	**5,295**	8,738
Minimum Cash Reserve	**10,350**	12,121
Less: Allowance for ECL	**(3)**	-
Total	**15,642**	20,859

As required by the provisions of Section 45 of the Banking Order 2006, a cash balance is maintained with the Autoriti Monetari Brunei Darussalam. At present the minimum cash reserve requirement is 6% of the deposit liabilities.

Balance with Autoriti Monetari Brunei Darussalam are carried at amortised cost in the statement of financial position.

6 GOVERNMENT SUKUK

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Government Sukuk held		
- Original maturity less than one year	**22,500**	12,500
Less: Allowance for ECL	**(112)**	-
Total	**22,388**	12,500

Government Sukuk is carried at amortised cost in the statement of financial position.

7 LOANS AND ADVANCES

Loans and advances analysed by type:

	31-Dec-2018	31-Dec-2017
	B$'000	B$'000
Bills of exchange	**104**	49
Cash line/overdrafts	**44,657**	46,972
Term loans		
- other term loans	**20,863**	22,575
Trust receipts	**27,203**	29,543
Interest receivables	**882**	1,834
Gross loan and advances	**93,709**	100,973
Less: Loan loss provisions		
- Specific (note 26)	**(5,336)**	(4,368)
- Collective (note 26)	**-**	(3,055)
- Allowance for ECL (note 26)	**(460)**	-
Net loan and advances	**87,913**	93,550

At 31 December 2018: B$19,048 thousand (2017: B$19,136 thousand) of loans and advances were expected to be settled more than 12 months after the reporting date.

Gross loans and advances analysed by security:

	31-Dec-2018	31-Dec-2017
	B$'000	B$'000
Unsecured	**1**	11
Secured by:-		
- Cash	**24,063**	30,355
- Mortgage of property	**43,060**	42,921
- Guarantees	**26,585**	27,686
Total	**93,709**	100,973

Gross loans and advances analysed by sector:

	31-Dec-2018	31-Dec-2017
	B$'000	B$'000
Agricultural	**4,877**	5,721
Manufacturing	**4,055**	3,679
Infrastructure	**1,463**	3,333
Transportation	**210**	315
Traders	**35,683**	31,529
Professional services	**9,870**	9,285
Constructions and Property Financing	**34,423**	43,058
Tourism	**598**	649
Telecommunication and Information Technology	**2,530**	3,404
Total	**93,709**	100,973

8 GROUP BALANCES RECEIVABLE

Name of company	31-Dec-2018 B$'000	31-Dec-2017 B$'000
United Overseas Bank Ltd, Singapore	**25,486**	35,290
United Overseas Bank Ltd, Hong Kong	**108,801**	133,513
United Overseas Bank Ltd, Japan	**21**	18
PT Bank UOB Indonesia	**12**	21
United Overseas Bank Ltd Philippines	**22**	41
Less: Allowance for ECL	**-**	-
Total	**134,342**	168,883

At 31 December 2018 and 31 December 2017, none of group balances receivable were expected to be settled more than 12 months after the reporting date.

9 PLANT AND EQUIPMENT

	Furniture, Fixtures, equipment and computer software B$'000	Motor vehicles B$'000	Total B$'000
Cost			
Balance at 1 January 2017	1,926	183	2,109
Additions during the year	110	-	110
Balance at 31 December 2017	2,036	183	2,219
Balance at 1 January 2018	**2,036**	**183**	**2,219**
Additions during the year	**29**	**-**	**29**
Disposal during the year	**(106)**	**-**	**(106)**
Balance at 31 December 2018	**1,959**	**183**	**2,142**
Accumulated depreciation			
Balance at 1 January 2017	(1,793)	(133)	(1,926)
Depreciation charge for the year	(41)	(22)	(63)
Balance at 31 December 2017	(1,834)	(155)	(1,989)
Balance at 1 January 2018	**(1,834)**	**(155)**	**(1,989)**
Depreciation charge for the year	**(46)**	**(22)**	**(68)**
Disposal for the year	**106**	**-**	**106**
Balance at 31 December 2018	**(1,774)**	**(177)**	**(1,951)**
Carrying amounts			
Balance at 31 December 2017	202	28	230
Balance at 31 December 2018	**185**	**6**	**191**

10 OTHER ASSETS

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Prepayments	**81**	87
Late cheques	**-**	567
Sundry deposits	**32**	32
Finance charges receivable	**2**	30
Sundry debtor	**2**	195
Accrued income	**474**	407
Less: Allowance for ECL	**(5)**	-
Total	**586**	1,318

11 DEPOSITS FROM CUSTOMERS

Analysed by types of deposits:

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Demand deposits	**33,113**	50,563
Savings deposits	**15**	272
Fixed deposits	**131,582**	154,173
Others	**173**	241
Total	**164,883**	205,249

Analysed by types of customers:

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Business enterprises	**134,710**	170,277
Individuals	**30,148**	34,939
Others	**25**	33
Total	**164,883**	205,249

At 31 December 2018 and 31 December 2017, none of deposits from customers had contractual maturities of more than 12 months after the reporting date.

12 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Banks and financial institutions abroad	**2,910**	2,989
Total	**2,910**	2,989

At 31 December 2018 and 31 December 2017, none of the deposits from banks and other financial institutions had contractual maturities of more than 12 months after the reporting date.

13 GROUP BALANCES PAYABLE

Name of company	**31-Dec-2018 B$'000**	31-Dec-2017 B$'000
United Overseas Bank Ltd Singapore	**2,605**	2,406
United Overseas Bank (M) Bhd, Malaysia	**1,422**	481
Total	**4,027**	2,887

At 31 December 2018 and 31 December 2017, none of the group balances payable were expected to be settled more than 12 months after the reporting date.

14 OTHER LIABILITIES

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Creditors and accruals	**666**	645
Other	**501**	1,277
ECL Allowance for commitment & contingencies	**178**	-
Total	**1,345**	1,922

At 31 December 2018: B$249 thousand (2017: B$32 thousand) of other liabilities were expected to be settled more than 12 months after the reporting date.

15 TAXATION

Provision for income tax:

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Balance at the beginning of the financial year	**74**	35
Income tax paid	**(74)**	(20)
Current tax liabilities	**-**	74
Overprovision in prior year	**-**	(15)
Total	**-**	74

Deferred Taxation

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Balance at the beginning of the financial year	**-**	-
Deferred tax asset provided	**189**	-
Total	**189**	-

Deferred tax asset comprises allowance of impairment in relation to adoption of IFRS 9.

16 ASSIGNED CAPITAL

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Balance at the beginning/end of the financial year	**30,000**	30,000

The assigned capital is maintained to comply with Section 8 (2) e (ii) of the Brunei Darussalam Banking Order, 2006

17 STATUTORY RESERVE FUND

The Statutory Reserve Fund is maintained to comply with Section 24 of the Brunei Darussalam Banking Order 2006.The Branch transfers a minimum of 50% (2017:50%) of the profit for the financial year to statutory reserve fund.

PRUDENTIAL RESERVE FOR CREDIT LOSSES

This reserve is maintained pursuant to paragraph 6 of the Notice on Prudential Treatment of Problem Assets and Accounting for Expected Credit Losses issued by Autoriti Monetari Brunei Darussalam on 27 December 2018 which requires accrued interest on non–performing accounts to be set aside and transferred to this reserve. This reserve is non-distributable.

18 COMMITMENTS AND CONTINGENCIES

(i) 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.

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Contingencies		
Letters of credit	**4,138**	4,864
Guarantees, bonds	**15,189**	18,912
Shipping guarantees	**548**	45
Acceptances	**107**	149
Others	**425**	490
Sub total	**20,407**	24,460
Commitments		
Undrawn credit lines	**62,775**	70,926
Others	**314**	455
Sub total	**63,089**	71,381
Total contingencies and commitments	**83,496**	95,841

At 31 December 2018: B$25,561 thousand (2017: B$25,626 thousand) of contingencies and commitments had contractual maturities of more than 12 months after the reporting date.

(ii) Operating lease commitments

Future minimum rentals payable under operating lease as at 31 December are as follows:-

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Minimum lease payable		
Within 1 year	**174**	175
Over 1 to 5 years	**140**	280
Over 5 years	**-**	-
Total Commitments	**314**	455

19 NET INTEREST INCOME

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Interest Income		
Interest income from customers	**6,178**	6,306
Interest income from banks	**1,962**	1,957
Total Interest Income	**8,140**	8,263
Interest Expense		
Deposits from customers	**(1,272)**	(1,429)
Total Interest Expense	**(1,272)**	(1,429)
Net Interest Income	**6,868**	6,834

20 NET FEE INCOME

	2018 B$'000	2017 B$'000
Fee income		
Government Sukuk	**184**	137
Retail banking customer fees	**67**	55
Credit-related fees	**287**	277
Trade-related fees	**241**	315
Financial guarantee contracts issued	**176**	113
Other	**15**	19
Total fee income	**970**	916

21 NET TRADING INCOME

	2018 B$'000	2017 B$'000
Foreign exchange	**287**	342
Net trading income	**287**	342

22 OTHER OPERATING INCOME

	2018 B$'000	2017 B$'000
Safe deposit box rental	**3**	8
Cable and postage charges	**117**	122
Agency fee	**12**	10
Stamp duty	**4**	11
Total	**136**	151

23 PERSONNEL EXPENSES

	2018	2017
	B$'000	B$'000
Salaries	**1,767**	1821
Allowance and bonuses	**575**	533
Contribution to defined contribution plan	**143**	139
Others	**70**	75
Total	**2,555**	2,568

24 MANAGEMENT FEES

The Head Office provides necessary management, supervisory, and operational support as well as infrastructure to run and support the Branch's operations. As such a management fee is paid to the Head Office on a proforma basis.

	2018	2017
	B$'000	B$'000
Management fees paid to Head Office	**12**	12
Total	**12**	12

25 OTHER OVERHEAD EXPENSES

	2018	2017
	B$'000	B$'000
Promotion		
Advertisement and publicity	**54**	36
Operational		
Rental	**140**	140
Depreciation	**68**	63
Hire of equipment	**2**	2
General expenses		
Auditors' fees		
- audit work	**40**	33
Professional fees	**126**	133
IT & data	**205**	336
Telecommunication	**263**	253
Insurance	**66**	65
Repair & upkeep	**45**	43
Others	**357**	349
Total	**1,366**	1,453

26 ALLOWANCE FOR IMPAIRMENT/LOAN LOSS PROVISIONS

(a) Allowance for impairment

	2018	2017
	B$'000	B$'000
Stage 1 and 2 – Expected Credit Losses	**(264)**	-
Stage 3 – Expected Credit Losses / Specific Allowances for Loans	**1,761**	1,135
Bad Debt Written off	**2,488**	-
Bad Debt Recovered	**(113)**	(296)
Interest Accretion	**(3)**	-
Collective Impairment	-	132
Total	**3,869**	971

(b) Collective Impairment under IAS 39

	2018 **B$'000**	2017 B$'000
Balance at 1 January	**3,055**	2,923
Addition for the year	**-**	132
Effect of adoption of IFRS	**(3,055)**	-
Balance at 31 December	**-**	3,055

26 ALLOWANCE FOR IMPAIRMENT/LOAN LOSS PROVISIONS (continued)

(c) Loans and advances at amortised cost

B$'000	Stage 1	Stage 2	Stage1 and Stage 2	Stage 3	Total
Balance at 31 December 2017	-	-	-	4,368	4,368
Effect of adopting IFRS 9 Financial instruments	429	226	655	(794)	(139)
As at 1 January 2018, restated	429	226	655	3,574	4,229
Movements with profit or loss impact:					
(i) Transferred to Stage 1	77	(73)	4	-	4
(ii) Transferred to Stage 2					
(a) Stage 1 to Stage 2	(84)	86	2	-	2
(b) Stage 3 to Stage 2	-	-	-	-	-
(iii) Transferred to Stage 3					
(a) Stage 1 to 3	(7)	-	(7)	1,360	1,353
(b) Stage 2 to 3	-	(20)	(20)	1,152	1,132
(iv) New/ additional ECL during the period	552	122	674	486	1,160
(v) Maturity/ settlement/ reduction in ECL during the period	(601)	(247)	(848)	(1,233)	(2,081)
(vi) Exchange fluctuation	-	-	-	-	-
(vii) Bad debts written off	-	-	-	435	435
(viii) Bad debt recovered	-	-	-	(287)	(287)
Unwinding of Discount	-	-	-	(3)	(3)
Movements without profit or loss impact:					
Write-offs	-	-	-	(148)	(148)
Other movements	-	-	-	-	-
Balance at 31 December 2018	366	94	460	5,336	5,796

26 ALLOWANCE FOR IMPAIRMENT/LOAN LOSS PROVISIONS (continued)

(d) Commitments and contingencies

B$'000	Stage 1	Stage 2	Stage 1 and stage 2	Stage 3	Total
Balance at 31 December 2017	-	-	-	-	-
Effect of adopting IFRS 9 Financial instruments	173	91	264	-	264
As at 1 January 2018, restated	173	91	264	-	264
Movements with profit or loss impact:					
(i) Transferred to Stage 1	16	(10)	6	-	6
(ii) Transferred to Stage 2					
(a) Stage 1 to Stage 2	(5)	9	4	-	4
(b) Stage 3 to Stage 2	-	-	-	-	-
(iii) Transferred to Stage 3					
(a) Stage 2 to 3	-	-	-	-	-
(iv) New/ additional ECL during the period	237	33	270	-	270
(v) Maturity/ settlement/ reduction in ECL during the period	(282)	(85)	(367)	-	(367)
(vi) Exchange fluctuation	1	-	1	-	1
Movements without profit or loss impact:					
Write-offs	-	-	-	-	-
Other movements	-	-	-	-	-
Balance at 31 December 2018	140	38	178	-	178

26 ALLOWANCE FOR IMPAIRMENT/LOAN LOSS PROVISIONS (continued)

(e) Government sukuk

B$'000	Stage 1	Stage 2	Stage 1 and stage 2	Stage 3	Total
Balance at 31 December 2017	-	-	-	-	-
Effect of adopting IFRS 9 Financial instruments	48	43	91	-	91
As at 1 January 2018, restated	48	43	91	-	91
Movements with profit or loss impact:					
(i) Transferred to Stage 1	-	-	-	-	-
(ii) Transferred to Stage 2					
(a) Stage 1 to Stage 2	-	-	-	-	-
(b) Stage 3 to Stage 2	-	-	-	-	-
(iii) Transferred to Stage 3					
(a) Stage 2 to 3	-	-	-	-	-
(iv) New/ additional ECL during the period	52	29	81		81
(v) Maturity/ settlement/ reduction in ECL during the period	(27)	(33)	(60)		(60)
(vi) Exchange fluctuation	-	-	-	-	-
Movements without profit or loss impact:					
Write-offs	-	-	-	-	-
Other movements					
Balance at 31 December 2018	73	39	112	-	112

27 INCOME TAX EXPENSE

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

	2018 B$'000	2017 B$'000
On profit of the financial year:		
Brunei Darussalam Income tax:		
Current income tax provision	-	74
Overprovision in prior year	-	(15)
Total income tax expense	-	59

Tax charge on profit for the financial year differs from the theoretical amount computed using Brunei Darussalam corporate income tax rate due to the following factors:

	2018 B$'000	2017 B$'000
Profit before income tax	**459**	3,239
Income tax using the domestic corporate income tax rate at 18.5%	**85**	599
Statutory threshold exemption	-	(28)
Expenses subject to further deduction	**(26)**	(51)
Non-taxable income	**(363)**	(429)
Expenses not deductible for income tax	**395**	11
Utilisation of capital allowances	**(10)**	(28)
Exempt income	**(34)**	-
Other	**(47)**	-
Total	-	74

28 ACCOUNTING CLASSIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below provides reconciliation between carrying value of line items in the statement of financial position and categories of financial instruments with their fair values.

31-Dec-2018	Mandatorily at FVTPL B$'000	Designated as FVTPL B$'000	FVOCI – debt securities B$'000	Amortised cost B$'000	Total B$'000	Fair value B$'000
Cash and Short Term Funds	-	-	-	1,281	1,281	1,281
Balances with Autoriti Monetari Brunei Darussalam	-	-	-	15,642	15,642	15,642
Government Sukuk	-	-	-	22,388	22,388	22,388
Loans and advances	-	-	-	87,913	87,913	87,913
Group balances receivable	-	-	-	134,342	134,342	134,342
Other assets	-	-	-	586	586	586
Total assets	-	-	-	262,152	262,152	262,152
Deposits from customers	-	-	-	164,883	164,883	164,883
Deposits from banks and other financial institutions	-	-	-	2,910	2,910	2,910
Group balances payable	-	-	-	4,027	4,027	4,027
Other Liabilities	-	-	-	1,345	1,345	1,345
Total liabilities	-	-	-	173,165	173,165	173,165

28 ACCOUNTING CLASSIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

31-Dec-2017	Loan and receivables B$'000	Financial liabilities at amortised cost B$'000	Fair value B$'000
Cash and Short Term Funds	1,672	-	1,672
Balances with Autoriti Monetari Brunei Darussalam	20,859	-	20,859
Government Sukuk	12,500	-	12,500
Loans and advances	93,550	-	93,550
Group balances receivable	168,883	-	168,883
Total assets	297,464	-	297,464
Deposits from customers	-	205,249	205,249
Deposits from banks and other financial institutions	-	2,989	2,989
Group balances payable	-	2,887	2,887
Total liabilities	-	211,125	211,125

The valuation process adopted by the Branch is governed by the valuation, market data, and reserve policies. These policies set the methodologies and controls for the valuation of financial assets and liabilities where mark-to-market or mark-to-model is required. The valuation processes incorporating the market rates, the methodologies and models, including the analysis of the valuation are regularly reviewed by Group Risk Management. Processes and controls are also subject to periodic reviews by internal auditors.

The valuation inputs are independently verified by checking against information from market sources. These are applicable to products or instruments with liquid markets or those traded on an exchange. Where market prices are not liquid, additional techniques will be used such as historical estimation or available proxies as additional reasonableness checks. Where products or instruments are complex, the Branch utilises approved valuation models. All valuation models are independently validated by Group Risk Management.

Fair value for instruments classified as Level 2 use inputs such as yield curves, volatilities and market prices which are observable and of high reliability.

When unobservable inputs are used in the valuation models for Level 3 financial assets or liabilities, apart from utilising market proxies, other valuation techniques such as cash flow, profit and loss or net asset value in financial statements are used as a reasonableness check.

The valuation process is supplemented by valuation reserves to adjust for valuation uncertainties. Valuation reserve methodologies and adjustments are approved by the Group Asset and Liability Committee (ALCO).

The valuation adjustments or reserves set aside include bid/offer rate adjustments, illiquidity adjustments and other adjustments such as Day 1 profit reserves, where applicable. Adjustments are also considered for use of proxies, models or estimated parameters.

For financial instruments carried at amortised cost, their fair values are determined as follows:

- For cash, balances, placements and deposits of central banks and banks, deposits of customers with short-term or no stated maturity, as well as interest and other short-term receivables and payables, fair values are expected to approximate the carrying amounts;

- For loans and deposits of customers, non-subordinated debts issued and investment debt securities, fair values are estimated based on independent broker quotes or using the discounted cash flow method; and

The fair values of the financial instruments carried at amortised cost were assessed to be not materially different from their carrying amounts.

29 RELATED PARTY TRANSACTIONS

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

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

During the year, in addition to the disclosures shown elsewhere in the financial statements, there were the following significant related party transactions undertaken on terms agreed between the parties in the normal course of business:

	Head Office		**Other branches and related entities**	
	31-Dec-2018 B$'000	31-Dec-2017 B$'000	**31-Dec-2018 B$'000**	31-Dec-2017 B$'000
Income				
Interest income	**121**	121	**1,825**	1,822
Total	**121**	121	**1,825**	1,822
Expenses				
Management fee	**12**	12	**-**	-
Total	**12**	12	**-**	-

All outstanding balances with these related parties, disclosed in notes 8 and 13, are priced on an arm's length basis and are settled in cash within six months of the reporting date. None of the balances is secured. No impairment losses have been recorded against these balances outstanding during the period, and no specific allowance has been made for impairment losses on these balances at the period end.

29 RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

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

Key management personnel compensation for the period comprised:

	2018 $'000	2017 $'000
Short-term employee benefits	**237**	221
Post-employment benefits	**23**	20
	260	241

30 CAPITAL MANAGEMENT

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

The Branch achieves these objectives through the Head Office Internal Capital Adequacy Assessment Process (ICAAP), whereby the Head Office actively monitors and manages the capital position over a medium term horizon, involving the following:

- Setting capital targets for the Branch taking into account regulatory changes and stakeholder expectations
- Forecasting capital demand for material risks based on the Head Office risk appetite
- Determining the availability and composition of different capital components

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 board for approval.

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. The Branch manages its own capital within the context of the ICAAP and Head Office capital management plan as well as any local capital regulations.

The Branch is regulated by the Autoriti Monetari Brunei Darussalam which sets and monitors its capital requirements under the Banking Order, 2006. The Branch did not breach the minimum Net Head Office funds of B$30 million and Capital Adequacy ratio requirements issued by the Autoriti Monetari Brunei Darussalam.

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS

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' is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Branch's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Branch considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process.

The process includes review of all non-performing and special mention loans, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review and audit are performed regularly to proactively manage any delinquency, minimise undesirable concentrations, maximise recoveries, and ensure that credit policies and procedures are complied with. Past dues and credit limit excesses are tracked and analysed by business and product lines. Significant trends are reported to the Branch's management and Head Office committees.

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

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

2018	Maximum credit exposure B$'000	Financial effect/ Collateralised B$'000	Unsecured portion of credit exposure B$'000
Credit exposure for On-Statement of Financial Position financial assets:			
Cash and short term funds	1,281	-	1,281
Balances with Autoriti Monetari Brunei Darussalam	15,642	-	15,642
Government Sukuk	22,388	-	22,388
Loans and advances	87,913	(66,520)	21,393
Group balances receivable	134,342	-	134,342
Other assets	586	-	586
Credit exposure for Off-Statement of Financial Position financial assets:			
Letters of credit	4,138	(3,117)	1,021
Guarantees, bonds	15,189	(2,999)	12,190
Shipping guarantees	548	(13)	535
Acceptances	107	(41)	66
Others	425	-	425
Total maximum credit exposure	282,559	(72,690)	209,869

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

(i) Credit risk (continued)

2017	Maximum credit exposure B$'000	Financial effect/ Collateralised B$'000	Unsecured portion of credit exposure B$'000
Credit exposure for On-Statement of Financial Position financial assets:			
Cash and short term funds	1,672	-	1,672
Balances with Autoriti Monetari Brunei Darussalam	20,859	-	20,859
Government Sukuk	12,500	-	12,500
Loans and advances	93,550	(73,276)	20,274
Group balances receivable	168,883	-	168,883
Other assets	1,318	-	1,318
Credit exposure for Off-Statement of Financial Position financial assets:			
Letters of credit	4,864	(4,448)	416
Guarantees, bonds	18,912	(3,151)	15,761
Shipping guarantees	45	-	45
Acceptances	149	(149)	-
Others	490	-	490
Total maximum credit exposure	323,242	(81,024)	242,218

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. The main type of collateral taken by the Branch is residential properties. Policies and processes are in place to monitor collateral concentration.

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

(i) Credit risk (continued)

The Branch monitors concentrations of credit risk by sector. The Branch's maximum exposure to credit risk before taking into account any collateral held other credit enhancements and netting arrangements, is shown in the table below. The credit risk associated with government sukuk held is linked to the credit risk of the government of Brunei Darussalam.

As at 31-Dec-2018	Loans and advances to banks B$'000	Loans and advances to customers B$'000	Stage 1 B$'000	Stage 2 B$'000	Stage 3 B$'000
By industry sector:					
Agricultural	-	4,877	4795	82	-
Manufacturing	-	4,055	3689	366	-
Transportation	-	210	188	22	-
Infrastructure	-	1,463	-	-	1,463
Traders	-	35,683	33,283	2,165	235
Professional services	-	9,870	7,785	766	1,319
Constructions and Property Financing	-	34,423	28,079	2,097	4,247
Tourism	-	598	280	318	-
Telecommunication and Information Technology	-	2,530	2,456	74	-
	-	93,709	80,555	5,890	7,264

As at 31-Dec-2017	Loans and advances to banks B$'000	Loans and advances to customers B$'000	Individual impairment B$'000
By industry sector:			
Agricultural	-	5,721	-
Manufacturing	-	3,679	-
Transportation	-	315	-
Infrastructure	-	3,333	1,987
Traders	-	31,529	247
Professional services	-	9,285	1,075
Constructions and Property Financing	-	43,058	1,059
Tourism	-	649	-
Telecommunication and Information Technology	-	3,404	-
	-	100,973	(4,368)
Less: Collective Allowance	-	(3,055)	-
	-	97,918	(4,368)

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

(i) Credit risk (continued)

Credit exposure analysed by geography

	In Brunei B$'000	Outside Brunei B$'000	Total B$'000
2018			
Cash and short-term funds	895	386	1,281
Securities purchased under resale agreements	-	-	-
Deposits and placements with financial institutions	-	134,342	134,342
Financial assets measured at FVOCI	-	-	-
Loans, advances and financing	87,913	-	87,913
Derivative financial assets	-	-	-
Other assets	586	-	586
Balances with Autoriti Monetari Brunei Darussalam and Government Sukuk	38,030	-	38,030
	127,424	134,728	262,152
Commitments and contingencies	80,092	3,404	83,496
2017			
Cash and short-term funds	1,184	488	1,672
Securities purchased under resale agreements	-	-	-
Deposits and placements with financial institutions	-	168,883	168,883
AFS Securities	-	-	-
Loans, advances and financing	93,550	-	93,550
Derivative financial assets	-	-	-
Other assets	1,318	-	1,318
Balance with Autoriti Monetari Brunei Darussalam and Government Sukuk	33,359	-	33,359
	129,411	169,371	298,782
Commitments and contingencies	92,925	2,916	95,841

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

(i) Credit risk (continued)

Ageing analysis of past due but not impaired and non-performing financial assets is summarized in the table that follows:

	31-Dec-18							
	Neither past due nor impaired B$'000	Past due but not Impaired B$'000	Non-performing B$'000	Total B$'000	Stage 1 B$'000	Stage 2 B$'000	Stage 3 B$'000	Net total B$'000
Current	82,642	-	-	82,642	(366)	(94)	-	82,182
Within 90 days	-	3,680	-	3,680	-	-	-	3,680
Over 90 to 180 days	-	-	229	229	-	-	(232)	(3)
Over 180 days	-	-	6,276	6,276	-	-	(5,104)	1,172
	82,642	3,680	6,505	92,827	(366)	(94)	(5,336)	87,031

Interest receivable is excluded from note 7 of the net loan and advances to tie to the above ageing report.

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

(i) Credit risk (continued)

	31-Dec-17					
	Neither past due nor impaired B$'000	Past due but not Impaired B$'000	Non-performing B$'000	Total B$'000	Impairment allowance B$'000	Net total B$'000
Current	89,110	-	-	89,110	-	89,110
Within 90 days	-	4,351	-	4,351	-	4,351
Over 90 to 180 days	-	-	-	-	-	-
Over 180 days	-	-	5,678	5,678	(4,368)	1,310
	89,110	4,351	5,678	99,139	(4,368)	94,771

Interest receivable and collective impairment are excluded from note 7 of the net loan and advances to tie to the above ageing report.

Offsetting of financial assets and financial liabilities

The financial assets and financial liabilities:-

- Are offset in the Branch's statement of financial position; or
- Are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

(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 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.

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 customer businesses.

Foreign exchange risk is managed through policies and risk limits approved by the Asset and Liability Committee ("ALCO"). The limits are independently monitored by Group Market Risk and Product Control.

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

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

	31-Dec-2018 B$'000	31-Dec-2017 B$'000
Net foreign currency exposure:		
Australian Dollar	**43**	38
United States Dollar	**(352)**	145
Euro	**66**	54
Singaporean Dollar	**134,939**	169,229
Other currencies	**171**	210
	134,867	169,676

A 1% strengthening of the foreign currencies, as indicated above, against the BND as at year end, would have increased (decreased) profit or loss by the amounts shown below. No impact would result on the Branch's equity balance as a result of this change in foreign currency rates. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit/(Loss) B$'000
31 December 2018	
1 % Strengthening	0.72
31 December 2017	
1 % Strengthening	4.47

(iii) Interest rate risk

Interest rate risk is the impact to earnings and economic value of the Branch due to fluctuations in interest rates. Interest rate exposure arises from differences in the maturity and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Head Office's policies as approved by the ALCO. The controls in place to manage interest rate risk are applied by the Head Office, on behalf of the Branch.

The Group's interest rate risk sensitivity is measured as changes in economic value of equity (EVE) or net interest income (NII).

The economic value of equity ("EVE") is the present value of assets less present value of liabilities of the branch. NII is the simulated change in the Branch's net interest income. The repricing profile of loans is generally based on the earliest possible repricing dates, taking into account the notice period to be served to the customers. Interest rate flooring effects are taken into consideration. Loan prepayment and time deposit early withdrawal rates are estimated based on past statistics and trends where possible and material. Behavioural assumptions based on historical trends are applied where appropriate. The average repricing maturity of core non-maturity deposits is determined through empirical models taking into account asset duration. Risk-free zero coupon curves are used for EVE discounting. Currencies are aggregated by scenarios. There may be some differences in the assumptions across geographical locations due to variation in local conditions.

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

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

	31-Dec-2018 $'000	31-Dec-2017 $'000
Fixed-rate assets	**86,373**	97,918
Floating-rate assets	**120,800**	143,500
Fixed-rate liabilities	**(168,065)**	(154,445)
	39,108	86,973

Interest rate sensitivity analysis

A change of 100 basis points in interest rates, given the level would have increased/(decreased) equity and profit or loss by B$3,910,800.

(iv) Liquidity risk

Liquidity risk is the risk that the Branch is unable to meet its financial obligations as and when they fall due, such as upon maturity of deposits and draw-down of loans.

The Branch manages liquidity risk in accordance with the liquidity framework approved by the Head Office ALCO. This framework comprises policies, controls and limits. These controls and policies include setting of cash flow mismatch limits, monitoring of liquidity early warning indicators, stress test analysis of cash flows in liquidity crisis scenarios and establishment of a comprehensive contingency funding plan. The Branch is also required by the Autoriti Monetari Brunei Darussalam to maintain a certain percentage of its liability base in the form of cash and other liquid assets as a buffer against unforeseen liquidity requirements. The objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements, and avoiding raising funds at market premiums or through forced sale of assets

(iv) Liquidity risk (continued)

The maturity analysis of the Branch assets and liabilities based on remaining contractual maturities does not reflect the actual behavioral patterns. In particular, the Branch has a significant amount of "core deposits" of non-bank customers which are contractually at call (included in the "Less than 3 months" time band).

In addition to the above, the Branch is also subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Note 18. The total outstanding contractual amounts of these items do not represent future cash requirements since the Branch expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers.

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

The following table shows cash flow analysis of the Branch's 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 prepayment of loans.

As at 31-Dec-2018	Up to 1 month B$'000	1 -3 months B$'000	3-12 months B$'000	1 to 3 years B$'000	More than 3 years B$'000	No specific maturity B$'000	Total B$'000
Assets							
Cash and cash equivalents	1,281	-	-	-	-	-	1,281
Government Sukuk	5,000	2,388	15,000	-	-	-	22,388
Loans and advances	23,916	53,680	8,296	264	-	1,757	87,913
Balance with Autoriti Monetari Brunei Darussalam	7,943	1,736	5,061	883	8	11	15,642
Group balances receivable	52,542	31,500	50,300	-	-	-	134,342
Fixed assets	-	-	-	-	191	-	191
Other assets	255	215	93	19	4	-	586
Deferred tax asset	-	-	189	-	-	-	189
Total Assets	90,938	89,519	78,939	1,166	203	1,768	262,532
Liabilities							
Deposits from customers	43,030	26,922	80,702	14,081	148	-	164,883
Deposits from banks and other financial institutions	2,759	-	-	-	151	-	2,910
Group balances payable	4,028	-	-	-	-	-	4,028
Other liabilities	271	294	529	-	251	-	1,345
Taxation	-	-	-	-	-	-	-
Total Liabilities	50,088	27,216	81,231	14,081	550	-	173,166
Equity							
Equity holders of the Branch	-	-	-	-	-	89,366	89,366
Net on-balance sheet open position	40,850	62,303	(2,292)	(12,915)	(347)	(87,598)	-
Net off balance sheet open position	13,839	7,045	9,633	1,276	637	-	32,430
Net Maturity mismatch	27,011	55,258	(11,925)	(11,639)	(984)	(87,598)	(32,430)

31 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS (continued)

(iv) Liquidity risk (continued)

As at 31-Dec-2017	Up to 1 month B$'000	1 -3 months B$'000	3-12 months B$'000	1 to 3 years B$'000	More than 3 years B$'000	No specific maturity B$'000	Total B$'000
Assets							
Cash and cash equivalents	1,672	-	-	-	-	-	1,672
Government Sukuk	-	5,000	7500	-	-	-	12,500
Loans and advances	29,305	59,298	8,547	526	241	(4,369)	93,548
Balance with Autoriti Monetari Brunei Darussalam	10,580	2,826	6,163	1,281	9	-	20,859
Group balances receivable	67,383	51,500	50,000	-	-	-	168,883
Fixed assets	-	-	-	-	230	-	230
Other assets	797	177	290	49	5	-	1,318
Total Assets	109,737	118,801	72,500	1,856	485	(4,369)	299,010
Liabilities							
Deposits from customers	46,324	54,124	82,956	21,637	208	-	205,249
Deposits from banks and other financial institutions	2,927	-	-	-	62	-	2,989
Group balances payable	2,887	-	-	-	-	-	2,887
Other liabilities	903	793	194	-	32	-	1,922
Taxation	-	74	-	-	-	-	74
Total Liabilities	53,041	54,991	83,150	21,637	302	-	213,121
Equity							
Equity holders of the Branch	-	-	-	-	-	85,889	85,889
Net on-balance sheet open position	56,696	63,810	(10,650)	(19,781)	183	(90,258)	-
Net off balance sheet open position	15,788	3,603	14,463	4,134	18	-	38,006
Net Maturity mismatch	40,908	60,207	(25,113)	(23,915)	165	(90,258)	(38,006)

32 Comparative figures

The comparative figures are derived from the audited financial statements audited by another firm of auditors.