BAIDURI BANK

PILLAR 3 DISCLOSURE

AS AT 31 DECEMBER 2020

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1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a bank solo as well as on a consolidated basis of the Group, i.e. the Bank ("Baiduri Bank Berhad") and its subsidiaries ("Baiduri Finance Berhad" & "Baiduri Capital Sdn Bhd"). The financial statements of the Bank and the Group have been prepared in accordance with the Brunei Darussalam Companies Act, Cap. 39, the Brunei Darussalam Banking Order, 2006 and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2. CAPITAL

The holders of ordinary shares are entitled to receive dividends as declared from time to time. All ordinary shares rank equally with regard to the Bank's and the Group's residual assets.

COMPOSITION OF CAPITAL

	Bank	
	2020	**2019**
	B$'000	**B$'000**
Tier 1 Capital	**432,655**	**394,811**
Paid-up Ordinary Shares/Assigned Capital (after deduction of holdings of own capital)	180,000	180,000
Statutory Reserve Fund	144,022	129,811
Published Retained Profits (after deduction of proposed dividends)	103,097	77,974
General Reserves	5,154	5,154
Prudential Reserve for Credit Losses	382	1,872
Tier 2 Capital	**11,050**	**19,631**
Collective Impairment/Allowance	11,050	23,065
Collective Impairment/Allowance – Allowable (Capped at 1.25% of Credit Risk)	11,050	19,631
Sub-Total of Tier 1 and Tier 2 Capital	**443,705**	**414,442**
Deduction for Significant Investments in Subsidiaries	(47,949)	(47,949)
Total Regulatory Capital (Capital Base)	**395,756**	**366,493**

COMPOSITION OF CAPITAL (CON'T)

	Group	
	2020	2019
	B$'000	B$'000
		Restated
Tier 1 Capital	**527,367**	**487,499**
Paid-up Ordinary Shares/Assigned Capital (after deduction of holdings of own capital)	180,000	180,000
Statutory Reserve Fund	183,639	166,051
Published Retained Profits (after deduction of proposed dividends)	157,426	133,960
General Reserves	5,154	5,154
Prudential Reserve for Credit Losses	1,148	2,334
Tier 2 Capital	**15,382**	**25,417**
Collective Impairment/Allowance	15,382	25,417
Collective Impairment/Allowance – Allowable (Capped at 1.25% of Credit Risk)	15,382	25,417
Sub-Total of Tier 1 and Tier 2 Capital	**542,749**	**512,916**
Total Regulatory Capital (Capital Base)	**542,749**	**512,916**

3. CAPITAL ADEQUACY

The Group's regulator, Autoriti Monetari Brunei Darussalam ("AMBD") sets and monitors capital requirements for the Group.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group's overall strategy remains unchanged from the previous financial year.

The capital structure of the Group consists of equity of the Bank and its subsidiaries (comprising issued capital, reserves, and retained earnings).

The Group has complied with all imposed capital requirements for the financial years ended December 31, 2019 and 2020. Management monitors capital based on "capital funds" as defined under the Brunei Darussalam Banking Order, 2006.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ("ICAAP")

Under the current regulatory framework, capital requirements are divided into two pillars:

- Pillar 1 – defined by a set of mathematical formulas prescribed by the regulator in order to calculate Risk Weighted Assets ("RWAs") for Credit Risk, Market Risk and Operational Risk. The minimum capital requirement is 10% of the total RWAs.

- Pillar 2 – contains a framework to assess the risks to which the Group is exposed as well as the risk management processes in place to avoid, manage and mitigate those risks. It requires an evaluation of capital adequacy relative to its risks; and considers the potential impact on earnings and capital from stress events.

While Pillar 1 entails the calculation of capital requirements on the basis of uniform rules for all banking groups operating in Brunei Darussalam, the ICAAP under Pillar 2 takes into account the individual characteristics of a given institution and covers all relevant risk types, including risks not addressed under Pillar 1.

The Group's approach to calculate its own internal capital requirements has been to take the minimum capital required for Risk Weighted Assets under Pillar 1 as the starting point, assess whether this is sufficient to cover the risks, and then identify other risks and assess prudent levels of capital to meet them. Various stress scenarios and methodologies have been employed to measure and assess Pillar 2 capital requirements for each key risk type.

Quantitative disclosures on the Group's capital adequacy can be found in page 47 of the Consolidated Financial Statements.

	Bank		**Group**	
	2020	**2019**	**2020**	**2019**
	B$'000	**B$'000**	**B$'000**	**B$'000**
				Restated
Capital				
Core Capital (Tier I Capital)	**432,655**	394,811	**527,367**	487,499
Supplementary Capital (Tier II Capital)	**11,050**	19,631	**15,382**	25,417
Less: Investment in Subsidiaries	**(47,949)**	(47,949)	**-**	-
Total Capital base	**395,756**	366,493	**542,749**	512,916
Risk-weighted amount				
Risk-weighted amount for Credit Risk	**1,632,989**	1,570,495	**2,293,444**	2,206,900
Risk-weighted amount for Operational Risk	**267,148**	265,271	**322,211**	324,674
Risk-weighted amount for Market Risk	**3,264**	1,802	**3,194**	1,779
Total Risk-weighted amount	**1,903,401**	1,837,568	**2,618,849**	2,533,353
Capital Ratios				
Core Capital (Tier I) Ratio, %	**22.73%**	21.49%	**20.14%**	19.24%
Total Capital Ratio, %	**20.79%**	19.94%	**20.72%**	20.25%

CAPITAL REQUIREMENTS FOR STANDARD PORTFOLIOS AS AT DECEMBER 31, 2020

	Bank	**Group**
	B$'000	**B$'000**
Capital requirements for:		
Sovereign	-	-
Public Sector Entities (PSE)	-	-
Banks	42,074	42,945
Corporate	65,679	70,061
Regulatory Retail (including claims on SMEs eligible for 75% risk weight)	15,522	71,962
Residential Retail (Qualifying for 35% risk weight only)	483	483
Equity	-	-

4. DISCLOSURES ON RISK MANAGEMENT FRAMEWORK

The Group recognises that a robust risk management framework is critical to support continued business expansion as well as sustainable growth in shareholder value. The Group Risk Management Committee ("GRMC") is established as a Board sub-committee to assist the Board of Directors in fulfilling its oversight responsibilities for the Group's risk management framework and the Group's corporate risk structure including the strategies, policies, processes, procedures, and systems established by the Senior Management to identify, assess, measure, manage, and monitor the Group's significant financial, operational, and other risk exposures. The GRMC monitors the Group's risks through a comprehensive risk monitoring and assessment framework which covers the various risks faced by the Group, including Credit, Liquidity, Market, Technology and Operational Risk, as well as Strategic, Compliance and Reputation Risks.

A Group Risk Appetite Statement ("RAS") has been issued, which identifies the major types of risks and express the level of such risks that the Group is willing to accept or avoid in order to achieve its strategic objectives. Senior Management as well as staff at all levels are required to have regard to the RAS in their decision-making process and in carrying out their day-to-day responsibilities.

Senior Management committees have been established and delegated authority for overseeing the day-to-day management of various risks. These include the Group Credit Committee ("GCC"), Asset and Liability Committee ("ALCO") and the Operational Risk Committee ("ORC").

Individual business lines and support functions act as the first line of defence and are responsible and accountable for the ongoing management of risks inherent in their activities. They are also required to ensure adherence to various policies and procedures including ensuring compliance with internal limits as well as laws and banking regulations.

The Group Risk Department acts as a second line of defence and is responsible for overseeing the Group's risk-taking activities and assessing risks and issues independently from the business line.

The Group Compliance Department also forms part of the second line of defence and is responsible for the identification, assessment, mitigation, monitoring and reporting of the Group's compliance risks.

Internal audit provides assurance on the implementation of the Group's overall risk management framework, as well as an assessment of the efficiency and effectiveness of the control environment. The Group Internal Audit is independent and reports directly to the Group Audit Committee.

5. CREDIT RISK

Credit risk is the risk of financial losses to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers, counterparties and investment debt securities.

Credit risk is diversified across the Group's business lines – Corporate Banking, Retail Banking, Hire Purchase Financing[1] and Treasury activities.

The Group has established a "Three Lines of Defence" framework which governs the credit risk management process which includes credit granting activities, credit monitoring and portfolio risk management. Furthermore, policies and processes are in place to ensure timely and appropriate recognition of expected credit losses ("ECL"). The Board of Directors, via the Executive Committee ("EXCO"), has delegated authority to the Group Credit Committee, who is responsible for the approval of lending policies & procedures, product programs, corporate banking exposures, large retail or hire purchase financing, as well as overseeing the day-to-day management of credit risks. The EXCO is directly responsible for overseeing the Group's treasury activities and the associated risks including credit risk. For the day-to-day management of the treasury activities, the EXCO is supported by the ALCO.

Credit risk-taking activities are guided by the Group Credit Risk Strategy Statement, which defines the Group's Credit Granting Principles as follows:

- The Group is firmly committed to ensure all credit facilities are granted in compliance with local regulatory rules and regulations.
- The Group generally provides credit facilities to residents of Brunei Darussalam. Similarly, credit facilities are generally only granted to companies incorporated or registered in Brunei Darussalam. Credit exposures outside of Brunei Darussalam require exceptional approval.
- The Group does not provide credit facilities in support of illegal activities, prohibited or unlicensed businesses, or any other activities deemed to pose unacceptable environmental, ethical, social or reputational risk to the Group and the wider community.
- Credit should only be granted when a clear understanding of the borrower, purpose of the facilities and identification of sources of repayment have been established. While collateral is often obtained as a form of credit risk mitigation, it should not be a substitute to ensuring the borrower has the income or equity to support its overall debt burden.
- The Group monitors and manages its concentration risk to groups of related counterparties as well as overall exposure to various industry sectors.
- The pricing of credit shall consider the overall risks of the borrower and facility, including collateral, as well as the funding and operating costs of the Group in order to ensure an acceptable return on capital.

The Group measures and monitors credit risk through Key Risk Indicators in the monitoring and assessment framework. The framework also includes the monitoring of Treasury-related credit risk indicators and are reported to the Board of Directors, via the GRMC on a quarterly basis.

[1] Under Baiduri Finance Berhad

Corporate risk exposures are graded according to an internal rating scale which is determined by the combination of intrinsic risk of the borrower and the assessment of credit risk mitigants, including the quality and nature of collateral provided. Factors which are considered for the intrinsic risk of the borrower include the industry environment, position within its sector, management capability, financial performance and repayment capacity.

All Corporate exposures are under the responsibility of the Group Credit Committee, within its delegated limits. Risk is further managed through a set of policies and procedures, which provide for credit criteria, credit assessment, annual review of credit exposures, management of collateral, management of problem accounts as well as independent review of credit files.

Credit risk for retail customers is generally managed on a portfolio level, with credit assessment and approval being guided by product programmes. Product programmes, which are approved by the Group Credit Committee, define the product's target customer segments, customer eligibility and exclusions; as well as the product's parameters in terms of pricing, fees, maximum limits and maximum tenor for both secured and unsecured lending products.

The Group Credit Committee has sub-delegated a small portion of its lending authority to the Corporate Banking, Retail Banking and Hire Purchase business-lines. Nevertheless, all credit exposures are individually assessed and approved within a limit authority matrix. Risks are monitored through portfolio delinquency reports, which monitor the distribution of exposures by product, delinquency status and credit rating, including historical trend analysis.

Within Retail Banking, the Retail Credit Management department is responsible for the day-to-day credit risk management.

With regards to the Group's treasury activities, authority to approve credit risk limits remains at the EXCO level, who have delegated monitoring responsibilities to the Group's ALCO. This covers credit exposures to financial institutions, counterparty and correspondent bank limits, as well as credit risk in the bank's investment portfolio, i.e. bonds / sukuk. Group Treasury and Institutional Banking is responsible for the day-to-day management of such risks and provides regular updates to ALCO and EXCO.

The definitions of credit-impaired financial assets and descriptions of the Group's approaches for specific and collective impairment provisions can be found in pages 26 to 29 and page 53 of the Consolidated Financial Statements. Further disclosures on the Group's management of credit risk, including quantitative disclosures can be found in pages 55 to 69 and 72 to 75 of the Consolidated Financial Statements.

External Credit Assessment Institutions ("ECAIs")

The Group refers to ratings published by the following ECAIs[2] for the purposes of assigning risk weights to assets:

- S&P Global Ratings
- Moody's Investors Service
- Fitch Ratings

[2] ECAIs are used to assign risk weights to claims on banks and financial institutions as well as rated corporate exposures within the Group's investment portfolio

GROSS CREDIT EXPOSURES BY MAJOR TYPE OF CREDIT EXPOSURE AS AT DECEMBER 31, 2020

Bank	Brunei B$'000	Singapore B$'000	United States of America B$'000	Malaysia B$'000	Others B$'000	Total B$'000
On-Balance Sheet Exposures						
Cash and Short Term Funds	265,138	1,050,155	12,302	58	17,959[3]	1,345,612
Derivative Assets	477	-	-	-	-	477
Government Sukuk	79,844	-	-	-	-	79,844
Investment Securities	-	577,123	-	-	300	577,423
Loans and Advances	1,190,992	-	-	2,263	22,713[4]	1,215,968
Sub-Total	1,536,451	1,627,278	12,302	2,321	40,972	3,219,324
Commitments and Contingencies	1,077,328	1,000	-	-	-	1,078,328
Total Credit Exposures	**2,613,779**	**1,628,278**	**12,302**	**2,321**	**40,972**	**4,297,652**

Group	Brunei B$'000	Singapore B$'000	United States of America B$'000	Malaysia B$'000	Others B$'000	Total B$'000
On-Balance Sheet Exposures						
Cash and Short Term Funds	276,126	1,050,155	12,302	58	17,959	1,356,600
Derivative Assets	477	-	-	-	-	477
Government Sukuk	79,844	-	-	-	-	79,844
Investment Securities	-	577,123	-	-	300	577,423
Loans and Advances	1,992,511	-	-	2,263	22,713	2,017,487
Sub-Total	2,348,958	1,627,278	12,302	2,321	40,972	4,031,831
Commitments and Contingencies	1,077,328	1,000	-	-	-	1,078,328
Total Credit Exposures	**3,426,286**	**1,628,278**	**12,302**	**2,321**	**40,972**	**5,110,159**

[3] Others include Australia, Canada, France, Germany, Hong Kong, Indonesia, Japan, Luxembourg, New Zealand, Philippines, Sweden, Thailand, United Arab Emirates and United Kingdom.

[4] Others include India and Panama.

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CONCENTRATION OF CREDIT RISK BY SECTOR

An analysis of concentrations of credit risk from loans and advances and other commitments is shown below:

	Loans and Advances		Contingencies and Other Commitments		Total	
	2020	2019	2020	2019	2020	2019
Bank	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**
Agriculture	**7,426**	3,997	**4,270**	3,381	**11,696**	7,378
Constructions and Property Financing	**472,720**	464,690	**44,423**	82,231	**517,143**	546,921
Financial	**-**	-	**75,269**	64,857	**75,269**	64,857
Infrastructure	**5,665**	5,186	**66,793**	3,842	**72,458**	9,028
Manufacturing	**79,983**	49,839	**96,866**	81,990	**176,849**	131,829
Personal and Consumption Loans	**175,245**	206,523	**26,311**	9,802	**201,556**	216,325
Services	**289,809**	176,039	**275,393**	361,479	**565,202**	537,518
Telecommunication and Information Technology	**2,444**	6,916	**122,520**	6,190	**124,964**	13,106
Tourism	**18,439**	20,248	**15,003**	3,563	**33,442**	23,811
Traders	**145,983**	174,794	**193,691**	137,762	**339,674**	312,556
Transportation	**91,904**	172,168	**157,789**	172,201	**249,693**	344,369
Total	**1,289,618**	1,280,400	**1,078,328**	927,298	**2,367,946**	2,207,698

	Loans and Advances		Contingencies and Other Commitments		Total	
	2020	2019	2020	2019	2020	2019
Group	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**	**B$'000**
Agriculture	**7,426**	3,997	**4,270**	3,381	**11,696**	7,378
Constructions and Property Financing	**472,720**	464,690	**44,423**	82,231	**517,143**	546,921
Financial	**-**	-	**75,269**	64,857	**75,269**	64,857
Infrastructure	**5,665**	5,186	**66,793**	3,842	**72,458**	9,028
Manufacturing	**79,983**	49,839	**96,866**	81,990	**176,849**	131,829
Personal and Consumption Loans	**175,245**	206,523	**26,311**	9,802	**201,556**	216,325
Services	**289,809**	176,039	**275,393**	361,479	**565,202**	537,518
Telecommunication and Information Technology	**2,444**	6,916	**122,520**	6,190	**124,964**	13,106
Tourism	**18,439**	20,248	**15,003**	3,563	**33,442**	23,811
Traders	**145,983**	174,794	**193,691**	137,762	**339,674**	312,556
Transportation	**912,732**	974,816	**157,789**	172,201	**1,070,521**	1,147,017
Total	**2,110,446**	2,083,048	**1,078,328**	927,298	**3,188,774**	3,010,346

NON-PERFORMING LOANS AND ADVANCES

The Bank and the Group regards a loan and advance as non-performing if it is in arrears for more than 3 months or if there is objective evidence of impairment.

	Total Credit Exposure		Non-Performing Loans		%	
	2020	2019	2020	2019	2020	2019
Bank	**B$'000**	**B$'000**	**B$'000**	**B$'000**		
Agriculture	**11,696**	7,378	**-**	-	**0.00%**	0.00%
Constructions and Property Financing	**517,143**	546,921	**23,460**	28,066	**4.54%**	5.13%
Financial	**75,269**	64,857	**-**	-	**0.00%**	0.00%
Infrastructure	**72,458**	9,028	**-**	-	**0.00%**	0.00%
Manufacturing	**176,849**	131,829	**927**	1,558	**0.52%**	1.18%
Personal and Consumption Loans	**201,556**	216,325	**7,710**	16,908	**3.83%**	7.82%
Services	**565,202**	537,518	**4,841**	7,012	**0.86%**	1.30%
Telecommunication and Information Technology	**124,964**	13,106	**246**	723	**0.20%**	5.52%
Tourism	**33,442**	23,811	**-**	542	**0.00%**	2.28%
Traders	**339,674**	312,556	**30,952**	29,646	**9.11%**	9.49%
Transportation	**249,693**	344,369	**488**	491	**0.20%**	0.14%
Total	**2,367,946**	2,207,698	**68,624**	84,946		

	Total Credit Exposure		Non-Performing Loans		%	
	2020	2019	2020	2019	2020	2019
Group	**B$'000**	**B$'000**	**B$'000**	**B$'000**		
Agriculture	**11,696**	7,378	**-**	-	**0.00%**	0.00%
Constructions and Property Financing	**517,143**	546,921	**23,460**	28,066	**4.54%**	5.13%
Financial	**75,269**	64,857	**-**	-	**0.00%**	0.00%
Infrastructure	**72,458**	9,028	**-**	-	**0.00%**	0.00%
Manufacturing	**176,849**	131,829	**927**	1,558	**0.52%**	1.18%
Personal and Consumption Loans	**201,556**	216,325	**7,710**	16,908	**3.83%**	7.82%
Services	**565,202**	537,518	**4,841**	7,012	**0.86%**	1.30%
Telecommunication and Information Technology	**124,964**	13,106	**246**	723	**0.20%**	5.52%
Tourism	**33,442**	23,811	**-**	542	**0.00%**	2.28%
Traders	**339,674**	312,556	**30,952**	29,646	**9.11%**	9.49%
Transportation	**1,070,521**	1,147,017	**17,343**	9,422	**1.62%**	0.82%
Total	**3,188,774**	3,010,346	**85,479**	93,877		

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6. CREDIT RISK MITIGATION ("CRM")

The Group employs various credit risk mitigation techniques which include appropriate facility structuring, obtaining of tangible collateral as well as non-tangible security. Covenants / facility conditions are frequently imposed on credit facilities.

Acceptable types of collateral / security[5]

Cash including Certificate of Deposit	Assignment of project receivables
Investment funds	Assignment of development agreement
Debentures	Assignment of sale & purchase agreement
Property (residential and commercial)	Guarantee from banks
Motor Vehicles	Assignment of insurance policy
Stocks and Shares (private or listed)	Corporate guarantee
Ships and vessels	Personal guarantee
Aircraft	Letter of comfort or awareness

The market value of collateral may be determined through independent valuation by third-party panel valuer firms, or through internal formulas. Haircuts may be applied to the market value of collateral held to determine its financial effect.

Although the Group accepts various forms of collateral[6], as at the reporting period, only cash and Brunei Government guarantees have been considered as allowable CRM for capital calculation purposes.

GROSS EXPOSURE AND TOTAL EXPOSURE THAT IS COVERED BY ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES FOR STANDARD PORTFOLIOS AS AT DECEMBER 31, 2020

	Bank			Group		
		Total Exposure that is covered by:			Total Exposure that is covered by:	
	Gross Exposure B$'000	Eligible financial collateral B$'000	Government Guarantees B$'000	Gross Exposure B$'000	Eligible financial collateral B$'000	Government Guarantees B$'000
Sovereign	638,547	-	-	700,799	-	-
Public Sector Entities (PSE)	-	-	-	-	-	-
Banks	1,224,929	-	-	1,233,637	-	-
Corporate	721,511	116,672	664	765,602	116,945	664
Regulatory Retail (including claims on SMEs eligible for 75% risk weight)	210,094	4,597	-	962,707	4,671	-
Residential Retail (Qualifying for 35% risk weight only)	14,104	307	-	14,104	307	-
Equity	-	-	-	-	-	-

[5] The listing is not intended to be exhaustive, representing the main types of collateral/security taken. The bank may accept other forms of collateral/security in order to mitigate its credit exposures

[6] Refer to page 68 – 69 of the Consolidated Financial Statements for further details on collateral held and of other credit enhancements

7. COUNTERPARTY CREDIT RISK

Counterparty Credit Risk is the risk arising from the possibility that the counterparty may default on amounts owned on a derivative transaction. Derivatives are financial instruments that derive their value from the performance of assets, interest or currency exchange rates, or indexes.

All limits for Counterparty Credit Risk are approved at the EXCO level. Limits are primarily to support Spot Transactions, Foreign Exchange Contracts as well as other derivative products (Swaps). Counterparty exposures are generally limited to banks which have been rated BBB+ by S&P (or Moody's/Fitch equivalent) or better.

The Bank and the Group's position on derivative financial instruments can be found on page 90 of the Consolidated Financial Statements.

8. MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the value of the Group's holdings of financial instruments (non-banking book). The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's solvency while optimizing the return on risk.

The EXCO is responsible for authorising all market risk limits and has delegated responsibility for the measurement, monitoring and reporting of market risk to the ALCO, with Group Treasury and Institutional Banking being responsible for the day to-day management of the Group's market risk positions.

The Group has limited risk appetite and exposure to market risk. As at 31 December 2020, the Group has minimal foreign exchange risk exposure and no market risk exposure to interest rate risk (trading book), equity position risk, or commodity risk.

Further disclosures on the Group's management of market risk, including quantitative disclosures can be found in pages 77 – 82 of the Consolidated Financial Statements.

CAPITAL REQUIREMENTS FOR MARKET RISK AS AT DECEMBER 31, 2020

	Bank B$'000	Group B$'000
Market Risk Capital Requirements for:		
Interest Rate Risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	326	319
Commodity Risk	-	-
Total	326	319

9. OPERATIONAL RISK

Operational risk is the risk to achieving the Group's strategic objectives as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk is inherent to every aspect of our business. The Group's objective is to manage its operational risk at appropriate levels, considering the markets we operate in, capital and liquidity adequacy, as well as economic conditions and the regulatory environment.

The Board is ultimately responsible for all aspects of operational risk management. The Board delegates these responsibilities to the GRMC to oversee the management of operational risks.

The Group Operational Risk Committee ("ORC") is responsible for the design, formulation and implementation of the Group's operational risk management framework, including related policies and processes to identify, evaluate, measure, monitor, and report on risks as well as the effectiveness of the internal control systems, taking appropriate and timely remedial actions as required.

The Three Lines of Defence approach is applied to operational risk management.

The first line of defence – business line management including support functions – is directly responsible for identifying and managing day-to-day operational risks.

The second line of defence is provided by the Group Risk Department where it coordinates, facilitates and oversees the effectiveness and integrity of the Group's operational risk management framework.

The third line of defence involves the Internal Audit function to provide independent assurance to the Board and senior management on the effectiveness and quality of governance, risk management and internal control processes.

The Group employs the Basic Indicator Approach to compute operational risk capital.

Additional risk management systems are in place to address specific to the areas including, but not limited to, are as follows:

Technology risk – All activities are governed by a set of Information Technology (IT) policies, guidelines, processes, procedures and mitigation programmes – including disaster recovery planning. These outline the governance and oversight structure, communication and escalation criteria, monitoring frequency, assessment and mitigation measures. IT incidents are assessed and evaluated by the Group's IT department according to its impact to the technologies, business operations and all stakeholders. Incidents are escalated to Chief Technology Officer, Group Risk Department and senior management for direction, depending on its severity.

Cyber and Information security risk – risk associated with cyber and information security are managed through security policies, processes, procedures and solutions. The Group's Information & Security Department is responsible for securing the network, infrastructure and information. The Group employs comprehensive assessments, penetration testing, firewall reviews and incident handling and response plans.

Fraud risk – risks associated with fraud are governed by Fraud policy with oversight by a dedicated committee.

Business disruptions – Business Continuity Management ("BCM") framework is embedded under a BCM programme which aims, in the event of an actual disaster, to recover the critical business processes and its ability to function in the changed operational environments, as well as to safeguard all stakeholders and protect the interests of the Group. It is to ensure that the impact of potential issues and adverse events are effectively managed to an acceptable level and communicated efficiently. Planning for resilience includes risk assessments and review, identification of critical business functions through Business Impact Analysis, continuity strategies, recovery and resumption plans, annual testing and exercising as well as maintenance of Business Continuity Plans ("BCP").

New products and services risk – the Group's policy is in place to ensure operational risks are considered and assessed as new products, services, systems and projects are initiated. Comprehensive post-implementation evaluation of new products or services is performed to ensure no risk remains unidentified or unaddressed.

Vendor, third party and outsourcing risk – the Group has implemented Vendor Management and Outsourcing policies, respectively. The policies are to govern vendor selection criteria, approved vendors, vendor evaluation and assessment, vendor review and outsourcing arrangements.

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK AS AT DECEMBER 31, 2020

	Bank B$'000	**Group B$'000**
Capital Requirements for:		
Operational Risk	26,715	32,221

10. EQUITY INVESTMENTS IN THE BANKING BOOK

Details on the Group's equity investments in the banking book can be found in page 83 – 86 of the Consolidated Financial Statements.

11. INTEREST RATE RISK IN THE BANKING BOOK ("IRRBB")

Due to different movements in interest rates of assets and liabilities, the Group's earnings are exposed to IRRBB. Group ALCO, assisted by Group Treasury and Institutional Banking as well as Finance Department, is responsible for managing interest rate risk.

Interest rate risk is managed principally through an Asset-Liability reports, which provides Senior Management with details on the level of and return generated from interest generating assets, compared against funding sources and associated costs. The Group also reports on maturity gaps on its asset and liability position.

The Board of Directors maintains oversight over interest rate risks through the monitoring of various Key Risk Indicators, which are reported quarterly to the Group Risk Management Committee.

Although the movement of interest rates is primarily driven by external market forces, certain mitigating strategies are taken which include ensuring sufficient margins (particularly on longer maturity exposures) on credit facilities. The bank further ensures that most of its credit exposures are priced against an internal reference rate, which may be adjusted in the event of material changes in the funding market.

Quantitative disclosures on the Group's interest rate risk can be found in pages 77– 80 of the Consolidated Financial Statements.

	Bank		Group	
	+0.10% B$'000	-0.10% B$'000	+0.10% B$'000	-0.10% B$'000
As at December 31, 2020	**223**	**(223)**	**(668)**	**668**
As at December 31, 2019	301	(301)	(514)	514

FUNDING AND LIQUIDITY RISK

Funding & liquidity risk is defined as the current and prospective risk to earnings, shareholder funds or reputation arising from the Group's inability to efficiently meet present and future funding needs or regulatory obligations when they are due, which may adversely affect our daily operations and incur unacceptable losses.

The Group seeks to ensure that it maintains sufficient liquidity, including a cushion of liquid assets to meet its liabilities when due on a business-as-usual basis, as well as during initial stages of stressed conditions. The Group also seeks to ensure that it has an adequate level of stable funding that it can rely on to meet the requirements of its balance sheet composition and that such sources are diversified.

The Board has delegated responsibility for liquidity risk management to the Group's ALCO. The ALCO Policy provides guidelines for its members with regards to the measurement, assessment and mitigation of liquidity risk.

The key elements of the Group's liquidity strategy are as follows:

1) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits, as well as maintaining contingency facilities with other banks;
2) Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
3) Monitoring liquidity ratios, maturity mismatches and behavioural characteristics of the Group's financial assets and liabilities.

Group Treasury and Institutional Banking manages the Group's day-to-day liquidity position. The Group maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, money market placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

The measure used by the Group for managing liquidity risk is the ratio of liquid assets to deposits from customers and short-term liabilities. For this purpose, liquid assets are considered as including cash and cash equivalents, bank placements and debt securities for which there is an active and liquid market.

The Group monitors the net stable funding ratio of both the bank and its finance subsidiary on a solo basis, in order to ensure a stable and sustainable funding structure with assessment of funding risk across its balance sheet.

Quantitative disclosures on the Group's funding and liquidity can be found in pages 72 – 75 of the Consolidated Financial Statements.

12. COMPLIANCE RISK

Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss or reputational damage which the Group may suffer as a result of its failure to comply with legal and regulatory requirements applicable to its activities. The Group aims to ensure effective compliance risk management through the careful observation and compliance with applicable laws and regulations.

The Group's Risk Appetite Statement in relation to Compliance states –

"The Group shall comply with all applicable laws, regulations and guidelines prescribed by the authorities. The Group shall also observe international practices and guidelines on anti-money laundering and combating the financing of terrorism. There should not be any material breaches of such laws, regulations or guidelines."

The Board of Directors has delegated overall compliance risk oversight to the GRMC.

Senior Management and Heads of Departments remain primarily responsible for ensuring that their activities comply with all applicable laws and regulations.

The Head of Group Compliance Department ("HGCD") cum AML Compliance Officer ("AMLCO") – reporting to the GRMC as well as the Deputy Chief Executive Officer, Compliance and Corporate Governance – leads the Group Compliance Department ("GCPD") and is responsible for the identification, assessment, mitigation, monitoring and reporting of the Group's compliance risks. The HGCD provides quarterly compliance reports to the GRMC. Such reports include the monitoring of several compliance Key Risk Indicators, including overall compliance with various regulatory requirements. Additionally, reports on key money laundering/terrorist financing ("ML/TF") risks and vulnerabilities, transaction monitoring data and trends, including Suspicious Transaction Reports ("STRs") filed with the regulator, are provided to the GRMC.

To meet the increasing regulatory requirements, the GCPD has restructured itself with the creation of three distinct units:

1. Financial Crime Compliance - Responsible for overseeing the Group's Anti-Money Laundering and Combatting the Financing of Terrorism programme. This unit utilizes automated and manual reports to monitor customers' transactions and detect activities that warrant further investigation. In addition, they manage our Sanctions Programme to ensure that the Group complies with international and local sanctions lists.

2. Regulatory and General Compliance – The advisory arm of Compliance, its main responsibility is to ensure that Business Units comply with new and existing regulations by means of Regulatory Gap Analysis ("RAG") against prevailing policies and procedures. Product risk assessment is another aspect of their scope which involves the assessment of compliance and regulatory risks inherent in products and services that the Group is considering investing in.

3. Monitoring and Testing - This unit is responsible for ensuring that the Group complies with existing regulations by conducting targeted testing.

The Group has invested heavily in systems and manpower over the years to ensure a strong compliance culture throughout the Group.

13. GROUP RECOVERY PLAN

The Group maintains a Group Recovery Plan which outlines a range of recovery options which may be implemented to stabilise and restore financial strength and viability under situations of severe stress scenarios. The plan establishes a framework to identify, manage and mitigate a crisis in a timely manner in order to restore the Group's capital, liquidity and profitability positions to reduce risks to the stability of the financial system and continuity of the Group's critical functions to the economy.