

**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
**(Incorporated in Brunei Darussalam)**

**REPORT OF THE DIRECTORS**  
**AND CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2017**

**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
(Incorporated in Brunei Darussalam)

**REPORT OF THE DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2017**

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## BAIDURI BANK BERHAD AND ITS SUBSIDIARIES

(Incorporated in Brunei Darussalam)

### REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and audited consolidated financial statements of Baiduri Bank Berhad (the "Bank") and its subsidiaries (the "Group") for the financial year ended December 31, 2017.

### PRINCIPAL ACTIVITIES

The principal activities of the Bank and the Group are to carry on the business of banking and related financial services including dealing in investment securities and e-financial services. There have been no significant changes in the nature of these activities during the financial year.

### RESULTS

	<b>Bank</b> <b>B\$'000</b>	<b>Group</b> <b>B\$'000</b>
Balance as at December 31, 2016	<b>54,491</b>	141,461
Total Profits for the financial year	<b>50,191</b>	53,651
Transferred from Retained Profits to:		
- Statutory Reserve	<b>(12,605)</b>	(13,505)
- Loan loss provision - Specific	<b>(8,320)</b>	(8,320)
Dividend paid	<b>(14,500)</b>	(14,500)
<b>Balance as at December 31, 2017</b>	<b>69,257</b>	158,787

### RESERVES AND PROVISIONS

There were no other material transfers to or from reserves and provisions during the financial year other than those disclosed in the financial statements.

### CONSOLIDATED FINANCIAL STATEMENTS

The state of affairs of the Bank and the Group as at December 31, 2017 is set out in the Statements of Financial Position. These consolidated financial statements were approved by the Board of Directors on March 21, 2018.

## **BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**

(Incorporated in Brunei Darussalam)

### **REPORT OF THE DIRECTORS**

#### **DIVIDEND**

**B\$**

Dividend paid in respect of the financial year ended December 31, 2016 14,500,000

At the forthcoming Annual General Meeting, a total dividend of B\$ 16,500,000 in respect of the current financial year ended December 31, 2017 will be proposed for shareholders' approval.

#### **DIRECTORS**

The directors in office during the financial year and at the date of this report are:

YTM Pg Anak Isteri Pengiran Anak Hajah Zariah

YAM Pengiran Muda Dr Abdul Fattaah

YM Dato Paduka Timothy Ong Teck Mong

Dayang Norliah Binti Haji Kula

(appointed on 22 March 2017)

Haji Sofian Bin Jani

(appointed on 22 March 2017)

Francis Gerard Caze

Bertie Cheng Shao Shiong

YM Haji Abu Bakar bin Haji Ibrahim

(resigned on 22 March 2017)

YM Haji Zakaria Hj Serudin

(resigned on 22 March 2017)

#### **ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND/OR DEBENTURES**

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors to acquire benefits by means of the acquisition of shares or debentures in the Bank or any other body corporate.

## DIRECTORS' INTERESTS IN SHARES AND/OR DEBENTURES

The directors holding office at the end of the financial year had no interests in the share capital or debentures of the company and related corporations as recorded in the register of directors' shareholdings kept by the bank except as follows:

Name of directors and companies in which interests are held	Holdings registered under the name of director or nominee	
	At December 31, 2017	At January 1, 2017 or date of appointment, if later
Subsidiary company Baiduri Finance Berhad (Ordinary shares)		
YTM Pg Anak Isteri Pengiran Anak Hajah Zariah	1	1
YAM Pengiran Muda Abdul Fattaah	1	1
YM Dato Paduka Timothy Ong Teck Mong	1	1
Francis Gerard Caze	1	1

## DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed, by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for as disclosed in the financial statements. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

## AUDITORS

The auditors, Deloitte & Touche, have indicated their willingness to accept re-appointment.

## ON BEHALF OF THE BOARD

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

Brunei Darussalam  
Date: March 21, 2018

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

### BAIDURI BANK BERHAD AND ITS SUBSIDIARIES

(Incorporated in Brunei Darussalam)

#### Opinion

We have audited the financial statements of Baiduri Bank Berhad (the "Bank") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Bank and the Group as at December 31, 2017, the statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Bank and the Group for the year then ended and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 7 to 72.

In our opinion, the accompanying financial statements of the Bank and the Group are properly drawn up in accordance with the provisions of the Brunei Darussalam Companies Act, Cap. 39 (the "Act"), the Banking Order, 2006 (the "Order") and International Financial Reporting Standards ("IFRS"), including the modification of IAS 39 *Financial Instruments: Recognition and Measurement* in respect of loan loss provisioning *Guideline No. 1/2009 "Provision for Bad and Doubtful Debts" and "Flexibility under Notice no.: BU/N-5/2017/40 – Classification of Impaired Credit/Financing Facilities and Financial Assets for Provisioning Purpose"* issued by Autoriti Monetari Brunei Darussalam pursuant to the Banking Order, 2006, so as to give a true and fair view of the financial position of the Bank and the Group as at December 31, 2017, and of the financial performance, changes in equity and cash flows of the company for the financial year ended on that date.

#### Basis for Opinion

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

The financial statements of the Bank and the Group for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 22, 2017.

#### Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the Directors' Report included in pages 1 to 3 but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated 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 Directors for the Consolidated Financial Statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRS, including the modification of IAS 39 *Financial Instruments: Recognition and Measurement* in respect of loan loss provisioning *Guideline No. 1/2009, "Provision for Bad and Doubtful Debt"* and *"Flexibility under Notice no.: BU/N-5/2017/40 – Classification of Impaired Credit/Financing Facilities and Financial Assets for Provisioning Purpose"* issued by Autoriti Monetari Brunei Darussalam pursuant to the Banking Order, 2006, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Bank's and Group'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 the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Bank's and Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 group'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 Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank and the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

#### **Report on other legal and regulatory requirements**

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



**DELOITTE & TOUCHE**  
Certified Public Accountants



**HAJI ZULFARIQ ZARA BIN HAJI ZAINUDDIN**  
Public Accountant

Brunei Darussalam  
Date: March 21, 2018



**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
(Incorporated in Brunei Darussalam)

**STATEMENTS OF PROFIT OR LOSS**

For the year ended December 31, 2017

	Note	Bank			Group		
		2017 B\$'000	2016 B\$'000	Change	2017 B\$'000	2016 B\$'000	Change
<b>Income</b>							
Interest Income		83,021	79,028	5.05%	138,879	135,232	2.70%
Interest Expense		(13,459)	(12,248)	9.89%	(18,819)	(18,476)	1.86%
<b>Net Interest Income</b>	5	<b>69,562</b>	<b>66,780</b>	<b>4.17%</b>	<b>120,060</b>	<b>116,756</b>	<b>2.83%</b>
Fee Income		8,913	8,629	3.29%	9,628	8,849	8.80%
Fee Expense		(302)	(334)	-9.58%	(409)	(379)	7.92%
<b>Net Fee Income</b>		<b>8,611</b>	<b>8,295</b>	<b>3.81%</b>	<b>9,219</b>	<b>8,470</b>	<b>8.84%</b>
Other Operating Income	6	44,220	41,514	6.52%	34,359	24,386	40.90%
Net gain/(loss) from Other Financial Instruments at Fair Value through Profit or Loss	7	769	(1)	77000.00%	769	(1)	77000.00%
<b>Net Other Operating Income</b>		<b>44,989</b>	<b>41,513</b>	<b>8.37%</b>	<b>35,128</b>	<b>24,385</b>	<b>44.06%</b>
<b>Total Operating Income before Impairment Charges and Allowances</b>							
		<b>123,162</b>	<b>116,588</b>	<b>5.64%</b>	<b>164,407</b>	<b>149,611</b>	<b>9.89%</b>
Less:							
Personnel Expenses	8	(29,274)	(27,127)	7.91%	(35,026)	(32,468)	7.88%
Provision for End of Service Benefits		(400)	(891)	-55.11%	(688)	(1,178)	-41.60%
Other Overhead Expenses	9	(27,133)	(25,072)	8.22%	(48,353)	(48,311)	0.09%
<b>Total Operating Expenses</b>		<b>(56,807)</b>	<b>(53,090)</b>	<b>7.00%</b>	<b>(84,067)</b>	<b>(81,957)</b>	<b>2.57%</b>
Less:							
Impairment Losses for Loans	16	(5,526)	(8,533)	-35.24%	(12,405)	(12,999)	-4.57%
Loans/Financing Written Off Impairment of Investments		15	(33)	-145.45%	15	(33)	-145.45%
		(2,225)	(3,000)	-25.83%	(2,225)	(3,000)	-25.83%
<b>Total Impairment Charges and Allowances</b>		<b>(7,736)</b>	<b>(11,566)</b>	<b>-33.11%</b>	<b>(14,615)</b>	<b>(16,032)</b>	<b>-8.84%</b>
<b>Profit before Taxation</b>		<b>58,619</b>	<b>51,932</b>	<b>12.88%</b>	<b>65,725</b>	<b>51,622</b>	<b>27.32%</b>
Less: Income Tax Expense	10	(8,428)	(6,823)	23.52%	(12,074)	(10,588)	14.03%
<b>Profit after Taxation / Profit for the year</b>		<b>50,191</b>	<b>45,109</b>	<b>11.27%</b>	<b>53,651</b>	<b>41,034</b>	<b>30.75%</b>

The significant accounting policies and the notes from pages 12 to 72 form an integral part of the financial statements.

**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
(Incorporated in Brunei Darussalam)

**STATEMENTS OF OTHER COMPREHENSIVE INCOME**

For the year ended December 31, 2017

	<b>Bank</b>		<b>Group</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>
<b>Profit after Taxation / Profit for the year</b>	<b>50,191</b>	<b>45,109</b>	<b>53,651</b>	<b>41,034</b>
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income for the year</b>	<b>50,191</b>	<b>45,109</b>	<b>53,651</b>	<b>41,034</b>

*The significant accounting policies and the notes from pages 12 to 72 form an integral part of the financial statements.*

**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
(Incorporated in Brunei Darussalam)

**STATEMENTS OF FINANCIAL POSITION**

As at December 31, 2017

	Note	Bank			Group		
		2017 B\$'000	2016 B\$'000	Change	2017 B\$'000	2016 B\$'000	Change
<b>ASSETS</b>							
Cash and Short Term Funds	11	1,601,308	1,645,114	-2.66%	1,607,501	1,649,937	-2.57%
Balances with AMBD	12	-	154,305	-100.00%	61,975	213,131	-70.92%
Derivative Assets	13	228	386	-40.93%	228	386	-40.93%
Government Sukuk	14	9,909	24,524	-59.59%	9,909	24,524	-59.59%
Investment Securities	15	80,553	121,062	-33.46%	80,553	121,062	-33.46%
Loans and Advances	16	1,242,050	1,112,770	11.62%	2,109,162	1,984,040	6.31%
Investments in Subsidiaries	17	27,949	27,949	0.00%	-	-	-
Property, Plant and Equipment	18	30,549	30,053	1.65%	31,442	31,067	1.21%
Other Assets	19	16,118	13,016	23.83%	45,385	44,437	2.13%
<b>Total Assets</b>		<b>3,008,664</b>	<b>3,129,179</b>	<b>-3.85%</b>	<b>3,946,155</b>	<b>4,068,584</b>	<b>-3.01%</b>
<b>LIABILITIES AND EQUITY</b>							
Deposits from Customers	20	2,259,124	2,513,157	-10.11%	3,278,768	3,513,210	-6.67%
Deposits from Banks and Other Financial Institutions	21	229,534	205,794	11.54%	3,753	6,445	-41.77%
Derivative Liabilities	13	111	359	-69.08%	111	359	-69.08%
Borrowings	22	80,252	-	100.00%	80,252	-	100.00%
Group Balances Payable	23	5,456	4,865	12.15%	-	-	-
Other Liabilities	24	57,873	57,939	-0.11%	66,861	65,010	2.85%
Deferred Taxation	25	8,446	8,446	0.00%	8,493	8,493	0.00%
Provision for Taxation	10	15,364	13,486	13.93%	36,349	34,330	5.88%
<b>Total Liabilities</b>		<b>2,656,160</b>	<b>2,804,046</b>	<b>-5.27%</b>	<b>3,474,587</b>	<b>3,627,847</b>	<b>-4.22%</b>
<b>SHAREHOLDERS' EQUITY</b>							
Share Capital	26	150,000	150,000	0.00%	150,000	150,000	0.00%
Statutory Reserves	27	128,093	115,488	10.91%	157,627	144,122	9.37%
Other Reserves	28	74,411	59,645	24.76%	163,941	146,615	11.82%
<b>Total Shareholders' funds/ Total Equity</b>		<b>352,504</b>	<b>325,133</b>	<b>8.42%</b>	<b>471,568</b>	<b>440,737</b>	<b>7.00%</b>
<b>Total Liabilities and Equity</b>		<b>3,008,664</b>	<b>3,129,179</b>	<b>-3.85%</b>	<b>3,946,155</b>	<b>4,068,584</b>	<b>-3.01%</b>
<i>Off Balance Sheet items:</i>							
<b>CONTINGENCIES AND COMMITMENTS</b>	29	<b>1,044,410</b>	<b>1,059,339</b>	<b>-1.41%</b>	<b>1,044,410</b>	<b>1,059,339</b>	<b>-1.41%</b>

The financial statements were approved by the Board of Directors and signed for and on its behalf.

  
Director

  
Director

  
Director

*The significant accounting policies and the notes from pages 12 to 72 form an integral part of the financial statements.*

**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
(Incorporated in Brunei Darussalam)

**STATEMENTS OF CHANGES IN EQUITY**

For the year ended December 31, 2017

<b>Bank</b>	<b>Share Capital B\$'000</b>	<b>Statutory Reserve B\$'000</b>	<b>General Reserve B\$'000</b>	<b>Retained Profits B\$'000</b>	<b>Total Equity B\$'000</b>
Balance as at 01/01/2016	150,000	104,211	5,154	34,809	294,174
Net profit for the year	-	-	-	45,109	45,109
Transfer during the year	-	11,277	-	(11,277)	-
Dividend paid	-	-	-	(14,150)	(14,150)
<b>Balance as at 31/12/2016</b>	<b>150,000</b>	<b>115,488</b>	<b>5,154</b>	<b>54,491</b>	<b>325,133</b>
Net profit for the year	-	-	-	50,191	50,191
Transfer during the year	-	12,605	-	(12,605)	-
Effect of additional specific impairment losses	-	-	-	(8,320)	(8,320)
Dividend paid	-	-	-	(14,500)	(14,500)
<b>Balance as at 31/12/2017</b>	<b>150,000</b>	<b>128,093</b>	<b>5,154</b>	<b>69,257</b>	<b>352,504</b>

<b>Group</b>	<b>Share Capital B\$'000</b>	<b>Statutory Reserve B\$'000</b>	<b>General Reserve B\$'000</b>	<b>Retained Profits B\$'000</b>	<b>Total Equity B\$'000</b>
Balance as at 01/01/2016	150,000	132,032	5,154	126,667	413,853
Net profit for the year	-	-	-	41,034	41,034
Transfer during the year	-	12,090	-	(12,090)	-
Dividend paid	-	-	-	(14,150)	(14,150)
<b>Balance as at 31/12/2016</b>	<b>150,000</b>	<b>144,122</b>	<b>5,154</b>	<b>141,461</b>	<b>440,737</b>
Net profit for the year	-	-	-	53,651	53,651
Transfer during the year	-	13,505	-	(13,505)	-
Effect of additional specific impairment losses	-	-	-	(8,320)	(8,320)
Dividend paid	-	-	-	(14,500)	(14,500)
<b>Balance as at 31/12/2017</b>	<b>150,000</b>	<b>157,627</b>	<b>5,154</b>	<b>158,787</b>	<b>471,568</b>

*The significant accounting policies and the notes from pages 12 to 72 form an integral part of the financial statements.*

**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
(Incorporated in Brunei Darussalam)

**STATEMENTS OF CASH FLOWS**

For the year ended December 31, 2017

	Note	Bank		Group	
		2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>Cash flows from operating activities</b>					
Profit before tax:		58,619	51,932	65,725	51,622
<i>Adjustments for non-cash items:</i>					
Depreciation of Property, plant and equipment	18	4,166	4,677	4,548	5,102
Net Gain on disposal of Property, plant and equipment		(39)	(4)	(39)	(16)
Fixed asset expensed off		3,000	-	3,000	-
Net (Gain)/Loss from Other Financial Instruments at Fair Value through Profit or Loss		(769)	1	(769)	1
Impairment of Investments		2,225	3,000	2,225	3,000
Impairment Losses for Loans		5,526	8,533	12,405	12,999
<b>Operating profit before change in operating assets and liabilities</b>		<b>72,728</b>	<b>68,139</b>	<b>87,095</b>	<b>72,708</b>
<i>Change in Operating assets and liabilities:</i>					
Placements with Banks		153,463	(126,687)	153,463	(126,687)
Balances with AMBD		154,305	(37,015)	151,156	(37,756)
Derivative Assets		158	(379)	158	(379)
Loan and Advances		(143,126)	26,484	(145,847)	39,449
Other Assets		(3,102)	(1,184)	(948)	2,251
Deposits from customers		(254,985)	805,884	(235,394)	824,372
Deposits from banks and other financial institutions		23,740	5,395	(2,692)	(32,005)
Derivative Liabilities		(248)	116	(248)	116
Other Liabilities		525	3,041	1,851	8,115
<b>Cash from operating activities</b>		<b>3,458</b>	<b>743,794</b>	<b>8,594</b>	<b>750,184</b>
Income tax paid		(6,550)	(6,508)	(10,055)	(11,912)
<b>Net cash (used in)/from operating activities</b>		<b>(3,092)</b>	<b>737,286</b>	<b>(1,461)</b>	<b>738,272</b>
<b>Cash flows from investing activities</b>					
Purchase of Property, plant and equipment	18	(7,692)	(3,545)	(7,954)	(3,806)
Proceeds from Disposal of Property, plant and equipment		70	15	70	25
Net investments		54,620	56,926	54,620	57,426
Investment in Subsidiary		-	500	-	500
<b>Net cash from investing activities</b>		<b>46,998</b>	<b>53,896</b>	<b>46,736</b>	<b>54,145</b>
<b>Cash flows from financing activities</b>					
Net increase/(decrease) in borrowings		80,252	(98,950)	80,252	(98,950)
Dividend paid		(14,500)	(14,150)	(14,500)	(14,150)
<b>Net cash from/(used in) financing activities</b>		<b>65,752</b>	<b>(113,100)</b>	<b>65,752</b>	<b>(113,100)</b>
Net change in cash and cash equivalents		109,658	678,082	111,027	679,317
Cash and cash equivalents at 1 January		1,280,603	602,521	1,285,425	606,108
<b>Cash and cash equivalents as at 31 December</b>	<b>30</b>	<b>1,390,261</b>	<b>1,280,603</b>	<b>1,396,452</b>	<b>1,285,425</b>

The significant accounting policies and the notes from pages 12 to 72 form an integral part of the financial statements.

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**1 GENERAL**

Baiduri Bank Berhad (the "Bank") is incorporated in Negara Brunei Darussalam with its principal place of business and registered office at Units 1-4, Block A, Kiarong Complex, Lebuhraya Sultan Hassanal Bolkiah, Bandar Seri Begawan BE1318, Negara Brunei Darussalam. The Bank carries on the business of banking and related financial services including dealing in investment securities and e-financial services. There have been no significant changes in the nature of these activities during the financial year.

During the financial year, the Group acquired a portfolio of loans and deposits from a third party bank.

The consolidated financial statements were authorised for issue by the Board of Directors on March 21, 2018.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF FINANCIAL STATEMENTS PREPARATION**

The financial statements of the Bank and the Group have been prepared in accordance with the Brunei Darussalam Companies Act, Cap. 39, the Brunei Banking Order, 2006 and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and included the modification of IAS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning by Guideline No.1/2009 'Provision for Bad and Doubtful Debts' and 'Flexibility under Notice no: BU/N-5/2017/40 – Classification of Impaired Credit/Financing Facilities and Financial Assets for Provisioning Purposes' issued pursuant to the Banking Order, 2006 (Modified IFRS).

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

**2.2 BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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2.2 BASIS OF CONSOLIDATION (cont'd)

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the group's accounting policies.

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**2.2 BASIS OF CONSOLIDATION (cont'd)**

Changes in the group's ownership interests in existing subsidiaries

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Bank's separate financial statements, investments in subsidiaries, associates and joint ventures are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

**2.3 BASIS OF MEASUREMENT**

The financial statements have been prepared on a historical cost basis, except for certain investment securities and derivative financial instruments classified as held at fair value through profit or loss that have been measured at fair value. The financial statements are presented in Brunei dollars and all values are rounded to the nearest thousand (B\$000), except when otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in inventories or value in use for assessing impairment of non-financial assets.



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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.3 BASIS OF MEASUREMENT (cont'd)**

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**2.4 REVENUE RECOGNITION**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated rebates and other similar allowances.

**2.4.1 Interest**

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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense on all trading assets and liabilities that are considered to be incidental to the Bank's trading operations other derivatives held for risk management purposes and other financial assets or liabilities carried at fair value through profit or loss are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.4 REVENUE RECOGNITION (cont'd)**

**2.4.2 Fees and commission**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

**2.4.3 Other operating income**

Other operating income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

**2.4.4 Net income from other financial instruments at fair value through profit or loss**

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.5 LEASING**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**2.6 FOREIGN CURRENCIES**

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.6 FOREIGN CURRENCIES (cont'd)**

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

**2.7 TAXATION**

**2.7.1 Current tax**

Current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the statements of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**2.7.2 Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.7 TAXATION (cont'd)**

**2.7.3 Current and deferred tax for the year**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**2.8 PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

At each year end, the management reassessed the estimated useful lives of various items of property, plant and equipment. The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

Freehold Land and Buildings	50 years
Leasehold Land and Buildings	Over period of the lease
Leasehold Improvements	5 – 20 years
Computers	2 - 8 years
Equipment / Furniture	5 years
Motor vehicles	5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.9 PROVISIONS**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**2.9.1 Onerous contracts**

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

**2.10 FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.1 Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

**2.10.2 Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.2 Financial assets at FVTPL (cont'd)**

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'net gain/(loss) from Other Financial Instruments at Fair Value through Profit or Loss' line item. Fair value is determined in the manner described in Note 4.

Changes in the fair value of financial assets at FVTPL relating to changes in foreign currency rates and interest income calculated using the effective interest method are recognised in profit or loss.

The fair value of financial assets at FVTPL, that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset.

**2.10.3 Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

**2.10.4 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest method, except for short-term receivables when the effect of discounting is not significant.



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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.5 Impairment of loans and receivables**

The Group reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

In accordance with a notice from Autoriti Monetari Brunei Darussalam (AMBD) dated 10 September 2015 and 15 March 2017 respectively, the Group modified the requirement of IAS 39 *Financial Instruments: Recognition and Measurement* in respect of loan loss provisioning by *Guideline No.1/2009 'Provision for Bad and Doubtful Debts' (AMBD Guideline)* and *'Flexibility under Notice no: BU/N-5/2017/40 – Classification of Impaired Credit/Financing Facilities and Financial Assets for Provisioning Purposes'* issued pursuant to the Banking Order, 2006. AMBD required the Group to recognize allowance for impairment losses for loans and receivables at an amount calculated based on the higher of AMBD Guideline or IAS 39. The allowance for impairment is calculated at an individual company level within the Group.

Individually assessed impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. The Group considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

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**December 31, 2017**

**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.5 Impairment of loans and receivables (cont'd)**

In making the assessment for individual impairment, the Group also takes into consideration the minimum impairment required under the following prudential arrangements set out in the AMBD Guideline as below:

- Substandard Accounts (Facilities in Arrears)  
A specific provision to cover the amount of the expected exposure. Such provisioning shall not be less than 20 percent of the amount outstanding in the event such interest has been debited to the loan/overdraft account. At this stage the value of collateral will not be considered.
- Doubtful Accounts (Facilities in Arrears)  
A specific provision to cover the amount of the expected exposure. Such provisioning shall not be less than 50 percent of the amount outstanding, net of realisable value of security in the event such interest has been debited to the loan/overdraft account.
- Loss Accounts (Facilities in Arrears)  
A specific provision equivalent to 100 percent of the amount outstanding, net of realisable security value, if any, in the event such interest has been debited to the loan/overdraft account.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.6 Derecognition of financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the group proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

**2.10.7 Financial liabilities and equity instruments classifications**

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**2.10.8 Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the entity are recognised when the proceeds received, net of direct issuance costs.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.9 Financial liabilities**

Financial liabilities are classified as either financial liabilities at FVTPL or/as other financial liabilities.

**2.10.10 Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net gain/(loss) from Other Financial Instruments at Fair Value through Profit or Loss' line item. Fair value is determined in the manner described in Note 4.5.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.11 Other financial liabilities**

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

**2.10.12 Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of an outflow of resources embodying economic benefits to settle that obligation under the contract; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

**2.10.13 Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**2.10.14 Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks (foreign exchange forward contracts).

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of profit or loss depends on the nature of the hedge relationship.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.10 FINANCIAL INSTRUMENTS (cont'd)**

**2.10.15 Embedded derivatives**

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

**2.11 EMPLOYEE BENEFITS**

**2.11.1 Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

The Group contributes to the Tabung Amanah Pekerja (TAP) and Supplementary Contributory Pension (SCP) scheme. These are the defined contribution plans regulated and managed by the Government of Brunei Darussalam, which applies to all local employees.

**2.11.2 Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Provisions for end of service benefits are made periodically based on the entitlements of the employees. The provisions for end of service benefits are calculated on the basis of the number of years serviced by the employees and are charged to the statement of profit or loss in the period in which the entitlements arise.

**2.11.3 Short-term employee benefits**

Short-term employees benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under salary and wages or accumulated paid absence if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.12 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

As at January 1, 2017 there were no new standards effective and relevant for the Group's operations for which adoption had a material impact on the Group's financial statements.

The following accounting standards have been issued by the International Accounting Standards (IASB) but are not yet effective for the Group and earlier application is permitted; however, the Group has not early applied the following accounting standards in preparing these financial statements.

Accounting standards	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 9 <i>Financial Instruments</i>	<p>IFRS 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting.</p> <p>Financial assets are classified according to their contractual cashflow characteristics and the business model under which they are held. Depending on whether the contractual cash flows of the debt investments are solely payments of principal and interest on the principal outstanding, and the business model objective of holding the debt securities, the debt investments may be measured at amortised cost, fair value through other comprehensive income or profit or loss. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.</p>	<p>The Group has assessed the potential impact on its financial statements resulting from the adoption of IFRS 9. There is a potential increase in the value of the Group's loans and advances and retained profits as of 1<sup>st</sup> January, 2017 (date of transition) approximately by BND 12.1 million.</p>

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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.12 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)**

Accounting standards	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 9 <i>Financial Instruments</i>	<p>The impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.</p> <p>IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	
IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i>.</p> <p>IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	The Group does not anticipate that the application of IFRS 15 will have a material impact on its financial statements.



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**2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**2.12 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)**

Accounting standards	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 16 <i>Leases</i>	<p>IFRS 16 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use ("ROU") assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 <i>Leases</i>. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the IAS 17 operating lease and finance lease accounting models respectively. However, IFRS 16 requires more extensive disclosures to be provided by a lessor.</p> <p>When effective, IFRS 16 replaces existing lease accounting guidance, including IAS 17, IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>; SIC 15 <i>Operating Leases—Incentives</i>; and SIC 27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>.</p> <p>IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if IFRS 15 is also applied</p>	<p>The Group does not anticipate that the application of IFRS 16 will have a material impact on its financial statements.</p>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 2, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**3.1 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In designating financial assets or liabilities as at FVTPL, the Group has determined that it has met one of the criteria for this designation.
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until maturity.

The following are the critical judgements, estimations (as below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Individually assessed impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. The Group maintained provision for impairment allowances in accordance with Modified IFRS after taking into consideration the minimum impairment required under the prudential framework set out in the AMBD Guideline in note 16.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY (cont'd)**

**3.2 KEY SOURCES OF ESTIMATION UNCERTAINTY**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value estimation

Determination of the fair value of financial instruments with significant unobservable inputs with assumptions and estimations uncertainty are set out in note 4.5 Fair Value Measurements.

## BAIDURI BANK BERHAD AND ITS SUBSIDIARIES

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES

##### 4.1 CAPITAL MANAGEMENT

The Group's regulator, Autoriti Monetari Brunei Darussalam 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 (comprising issued capital, reserves, and retained earnings).

The Group has complied with all imposed capital requirements for the financial years ended December 31, 2016 and 2017. Management monitors capital based on "capital funds" as defined under the Banking Order, 2006.

	Bank		Group	
	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000
<b>Capital</b>				
Core Capital (Tier I Capital)	352,504	310,633	471,568	426,237
Supplementary Capital (Tier II Capital)	6,730	21,122	9,708	23,440
Less: Investment in Subsidiaries	(27,949)	(27,949)	-	-
<b>Total Capital base</b>	<b>331,285</b>	<b>303,806</b>	<b>481,276</b>	<b>449,677</b>
<b>Risk-weighted amount</b>				
Risk-Weighted amount for Credit Risk	1,484,501	1,505,702	2,180,139	2,413,824
Risk-Weighted amount for Operational and Market Risk	221,332	162,790	298,163	229,747
<b>Total Risk-weighted amount</b>	<b>1,705,833</b>	<b>1,668,492</b>	<b>2,478,302</b>	<b>2,643,571</b>
<b>Capital Ratios</b>				
Core Capital (Tier I) Ratio, %	20.66%	18.62%	19.03%	16.12%
<b>Total Capital Ratio, %</b>	<b>19.42%</b>	<b>18.21%</b>	<b>19.42%</b>	<b>17.01%</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES**

**4.2 CATEGORIES OF FINANCIAL INSTRUMENTS**

Bank	2017				2016			
	At Fair Value Through Profit or Loss B\$'000	Loans and Receivables B\$'000	At Amortised Cost B\$'000	Carrying Amount B\$'000	At Fair Value Through Profit or Loss B\$'000	Loans and Receivables B\$'000	At Amortised Cost B\$'000	Carrying Amount B\$'000
<b>Financial Assets</b>								
Cash and Short Term Funds								
Balances with AMBD	-	-	1,601,308	1,601,308	-	-	1,645,114	1,645,114
Derivative Assets	228	-	-	228	386	-	154,305	154,305
Government Sukuk	-	-	9,909	9,909	-	-	24,524	24,524
Investment Securities	18,314	-	62,239	80,553	41,739	-	79,323	121,062
Loans and Advances	-	1,242,050	-	1,242,050	-	1,112,770	-	1,112,770
Others Assets	-	-	14,477	14,477	-	-	11,315	11,315
<b>Total Financial Assets</b>	<b>18,542</b>	<b>1,242,050</b>	<b>1,687,933</b>	<b>2,948,525</b>	<b>42,125</b>	<b>1,112,770</b>	<b>1,914,581</b>	<b>3,069,476</b>
<b>Financial Liabilities</b>								
Deposits from Customers								
Deposits from Banks and Other Financial Institutions	17,884	-	2,241,240	2,259,124	17,282	-	2,495,875	2,513,157
Derivative Liabilities	111	-	229,534	229,534	-	-	205,794	205,794
Borrowings	-	-	80,252	80,252	359	-	-	359
Group Balances Payable	-	-	5,456	5,456	-	-	4,865	4,865
Other Liabilities	-	-	51,390	51,390	-	-	51,838	51,838
<b>Total Financial Liabilities</b>	<b>17,995</b>	<b>-</b>	<b>2,607,872</b>	<b>2,625,867</b>	<b>17,641</b>	<b>-</b>	<b>2,758,372</b>	<b>2,776,013</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES**

**4.2 CATEGORIES OF FINANCIAL INSTRUMENTS (cont'd)**

Group	2017				2016			
	At Fair Value Through Profit or Loss B\$'000	Loans and Receivables B\$'000	At Amortised Cost B\$'000	Carrying Amount B\$'000	At Fair Value Through Profit or Loss B\$'000	Loans and Receivables B\$'000	At Amortised Cost B\$'000	Carrying Amount B\$'000
<b>Financial Assets</b>								
Cash and Short Term Funds								
Balances with AMBD	-	-	1,607,501	1,607,501	-	-	1,649,937	1,649,937
Derivative Assets	228	-	61,975	61,975	-	-	213,131	213,131
Government Sukuk	-	-	-	228	386	-	-	386
Investment Securities	18,314	-	9,909	9,909	-	-	24,524	24,524
Loans and Advances	-	2,109,162	62,239	80,553	41,739	-	79,323	121,062
Others Assets	-	-	-	2,109,162	-	1,984,040	-	1,984,040
	-	-	43,569	43,569	-	-	42,654	42,654
<b>Total Financial Assets</b>	<b>18,542</b>	<b>2,109,162</b>	<b>1,785,193</b>	<b>3,912,897</b>	<b>42,125</b>	<b>1,984,040</b>	<b>2,009,569</b>	<b>4,035,734</b>
<b>Financial Liabilities</b>								
Deposits from Customers								
Deposits from Banks and Other Financial Institutions	17,884	-	3,260,884	3,278,768	17,282	-	3,495,928	3,513,210
Derivative Liabilities	111	-	3,753	3,753	-	-	6,445	6,445
Borrowings	-	-	-	111	359	-	-	359
Other Liabilities	-	-	80,252	80,252	-	-	-	-
	-	-	58,496	58,496	-	-	57,315	57,315
<b>Total Financial Liabilities</b>	<b>17,995</b>	<b>-</b>	<b>3,403,385</b>	<b>3,421,380</b>	<b>17,641</b>	<b>-</b>	<b>3,559,688</b>	<b>3,577,329</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.3 FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS**

Bank and Group	Gross amounts of Recognised Financial Assets/ Liabilities	Gross amounts of recognised Financial Liabilities / Assets set off in the Statements of Financial Position	Net amounts of Financial Assets presented in the Statements of Financial Position	Related Amounts not set off in the Statements of Financial Position		
				Financial Instruments	Cash Collateral received	Net amount
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
<b>2017</b>						
<b>Type of Financial Asset</b>						
Other Assets: Rental income receivable	2	-	2	-	2	-
	2	-	2	-	2	-
<b>Type of Financial Liability</b>						
Other Liabilities: Refundable deposits from Tenants	5	-	5	-	2	3
	5	-	5	-	2	3
<b>2016</b>						
<b>Type of Financial Asset</b>						
Other Assets: Rental income receivable	3	-	3	-	3	-
	3	-	3	-	3	-
<b>Type of Financial Liability</b>						
Other Liabilities: Refundable deposits from Tenants	5	-	5	-	3	2
	5	-	5	-	3	2

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES**

The Group has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risks.

Risk management framework

The Group's Board of Directors has appointed the Executive Committee (EXCO) to have overall responsibility for the establishment and oversight of the Group's risk management framework and the Audit and Risk Committee (ARC) to control the EXCO. The EXCO has established the Asset and Liability committee (ALCO) and the Credit Committee, which is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's ARC oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's ARC is assisted in its oversight role by the Internal Audit function. The Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, and reports to the ARC.



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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**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 and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposures (such as individual obligor default risk and sector risk).

The EXCO approves major prudential policies and limits that govern large customer exposures and industry concentration. The EXCO appoints the Group's Credit Committee who would work with the business lines to ensure that approved policies are applied appropriately and optimal returns on the Group's risk exposure are being achieved.

In respect of its lending-related activities, management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrowers, the industry segments, the level of non-performing loans and the adequacy of provisioning.

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

Exposure to credit risk is also managed in part by obtaining collateral. Some of the assets typically included as collateral are properties, assignment of leases and rental income, assignment of contract payments, salaries and deposit placements.

Concentration of credit risk

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances and other commitments is shown below.

Bank	Loans and Advances		Contingencies and Other Commitments		Total	
	2017	2016	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
Agriculture	6,093	4,818	5,247	7,347	11,340	12,165
Constructions and Property Financing	534,857	367,480	98,722	117,988	633,579	485,468
Financial	257	186	85,316	106,217	85,573	106,403
Infrastructure	7,519	13,497	1,524	25,593	9,043	39,090
Manufacturing	65,409	65,575	90,280	37,754	155,689	103,329
Personal and Consumption Loans	228,607	207,318	308,964	245,920	537,571	453,238
Services	149,283	140,139	275,435	238,860	424,718	378,999
Telecommunication and Information Technology	5,091	8,391	24,329	17,519	29,420	25,910
Tourism	11,826	8,042	1,678	8,029	13,504	16,071
Traders	171,571	162,105	136,575	192,933	308,146	355,038
Transportation	158,296	197,423	16,340	61,179	174,636	258,602
<b>Total</b>	<b>1,338,809</b>	<b>1,174,974</b>	<b>1,044,410</b>	<b>1,059,339</b>	<b>2,383,219</b>	<b>2,234,313</b>

Group	Loans and Advances		Contingencies and Other Commitments		Total	
	2017	2016	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
Agriculture	6,093	4,818	5,247	7,347	11,340	12,165
Constructions and Property Financing	534,857	367,480	98,722	117,988	633,579	485,468
Financial	257	186	85,316	106,217	85,573	106,403
Infrastructure	7,519	13,497	1,524	25,593	9,043	39,090
Manufacturing	65,409	65,575	90,280	37,754	155,689	103,329
Personal and Consumption Loans	228,607	207,318	308,964	245,920	537,571	453,238
Services	149,283	140,139	275,435	238,860	424,718	378,999
Telecommunication and Information Technology	5,091	8,391	24,329	17,519	29,420	25,910
Tourism	11,826	8,042	1,678	8,029	13,504	16,071
Traders	171,571	162,105	136,575	192,933	308,146	355,038
Transportation	1,033,289	1,074,310	16,340	61,179	1,049,629	1,135,489
<b>Total</b>	<b>2,213,802</b>	<b>2,051,861</b>	<b>1,044,410</b>	<b>1,059,339</b>	<b>3,258,212</b>	<b>3,111,200</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

*Impaired 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.

Bank	Total Credit Exposure		Non-Performing Loans		%	
	2017	2016	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000		
Agriculture	11,340	12,165	-	-	0.00%	0.00%
Constructions and Property Financing	633,579	485,468	35,861	13,807	5.66%	2.84%
Financial	85,573	106,403	-	-	0.00%	0.00%
Infrastructure	9,043	39,090	-	369	0.00%	0.94%
Manufacturing	155,689	103,329	450	4,197	0.29%	4.06%
Personal and Consumption Loans	537,571	453,238	23,753	18,014	4.42%	3.97%
Services	424,718	378,999	17,188	12,966	4.05%	3.42%
Telecommunication and Information						
Technology	29,420	25,910	-	-	0.00%	0.00%
Tourism	13,504	16,071	-	-	0.00%	0.00%
Traders	308,146	355,038	23,468	9,101	7.62%	2.56%
Transportation	174,636	258,602	-	-	0.00%	0.00%
<b>Total</b>	<b>2,383,219</b>	<b>2,234,313</b>	<b>100,720</b>	<b>58,454</b>		

  

Group	Total Credit Exposure		Non-Performing Loans		%	
	2017	2016	2017	2016	2017	2016
	B\$'000	B\$'000	B\$'000	B\$'000		
Agriculture	11,340	12,165	-	-	0.00%	0.00%
Constructions and Property Financing	633,579	485,468	35,861	13,807	5.66%	2.84%
Financial	85,573	106,403	-	-	0.00%	0.00%
Infrastructure	9,043	39,090	-	369	0.00%	0.94%
Manufacturing	155,689	103,329	450	4,197	0.29%	4.06%
Personal and Consumption Loans	537,571	453,238	23,753	18,014	4.42%	3.97%
Services	424,718	378,999	17,188	12,966	4.05%	3.42%
Telecommunication and Information						
Technology	29,420	25,910	-	-	0.00%	0.00%
Tourism	13,504	16,071	-	-	0.00%	0.00%
Traders	308,146	355,038	23,468	9,101	7.62%	2.56%
Transportation	1,049,629	1,135,489	15,094	13,614	1.44%	1.20%
<b>Total</b>	<b>3,258,212</b>	<b>3,111,200</b>	<b>115,814</b>	<b>72,068</b>		

**BAIDURI BANK BERHAD AND ITS SUBSIDIARIES**  
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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

The table below sets out a reconciliation of changes in the carrying amount of impaired loans and advances.

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Impaired loans and advances at 1 January	58,454	73,679	72,068	86,078
Classified as impaired during the year	11,081	10,684	48,382	41,732
Impaired loans and advances acquired during year	45,861	-	47,477	-
Transferred to not impaired during the year	(10,263)	(18,085)	(37,244)	(37,958)
Amount written off/recovered	(4,413)	(7,824)	(14,869)	(17,784)
<b>Impaired loans and advances at 31 December</b>	<b>100,720</b>	<b>58,454</b>	<b>115,814</b>	<b>72,068</b>

*Past due but not impaired loans and advances*

Past due but not impaired loans, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of historical experience.

	Bank		Group					
	2017 B\$'000	% of Gross Loans and advances	2016 B\$'000	% of Gross Loans and advances	2017 B\$'000	% of Gross Loans and advances	2016 B\$'000	% of Gross Loans and advances
<b>By Ageing:</b>								
Month-in-arrears 1	45,829	3.42	6,772	0.58	129,822	5.86	84,927	4.14
Month-in-arrears 2	6,679	0.50	4,090	0.35	24,688	1.12	19,949	0.97
<b>Total</b>	<b>52,508</b>		<b>10,862</b>		<b>154,510</b>		<b>104,876</b>	

*Impaired loans and advances*

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Individually assessed	100,720	58,454	115,814	72,068
<i>of which:</i>				
Month-in-arrears 1	-	-	-	-
Month-in-arrears 2	-	-	-	-
Month-in-arrears 3 and above	100,720	58,454	115,814	72,068

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

Loans with renegotiated terms and the Bank's forbearance practice

When there is deterioration in the borrower's financial position, loans may be restructured with renegotiated terms where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially. The Group implements forbearance practice in order to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance practise, loan forbearance is granted on an elective basis in situation where the debtor is currently in default on its debt, or where there is a high risk of default.

The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants.

Both retail and corporate loans are subject to the forbearance practice.

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Renegotiated loans and advances	2,713	3,020	10,134	10,280

Write-off policy

The Group writes off a loan and advances balance, and any related allowances for impairment losses, when the Group's management determines that the loan or security is uncollectible and all necessary actions have been taken. This determination is made after considering information such as the borrower's / issuer's latest financial position and chances of its ability to settle the obligation, the legal status, and /or proceeds from other collateral is minimum and will not be sufficient to pay back the entire exposure. Such proposal is proposed by the Legal and Recovery section and approved by the Management.

The Group's credit policy is in compliance with the Autoriti Monetari Brunei Darussalam's regulations and the laws of Brunei Darussalam.

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

*Collateral held and other credit enhancements and their financial effect*

The Group holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of Credit Exposure	Principal Type of Collateral Held for Secured Lending	Bank			Group		
		Loans and Advances B\$'000	Financial Effect of Collateral Held B\$'000	Net Exposure from Loans and Advances B\$'000	Loans and Advances B\$'000	Financial Effect of Collateral Held B\$'000	Net Exposure from Loans and Advances B\$'000
<b>2017</b>							
Agriculture	Cash / Mortgage	6,093	6,093	-	6,093	6,093	-
Constructions and Property Financing	Mortgage / Property	534,857	483,788	51,069	534,857	483,788	51,069
Financial	Cash	257	257	-	257	257	-
Infrastructure	Cash	7,519	6,884	635	7,519	6,884	635
Manufacturing	Cash / Debenture	65,409	36,575	28,834	65,409	36,575	28,834
Personal and Consumption Loans	Mortgage / Cash	228,607	36,513	192,094	228,607	36,513	192,094
Services	Cash / Mortgage	149,283	93,598	55,685	149,283	93,598	55,685
Telecommunication and Information Technology	Cash / Property	5,091	4,505	586	5,091	4,505	586
Tourism	Cash / Debentures	11,826	11,342	484	11,826	11,342	484
Traders	Cash / Property	171,571	107,929	63,642	171,571	107,929	63,642
Transportation	Cash / Debentures	158,296	108,885	49,411	1,033,289	650,263	383,026
<b>Total</b>		<b>1,338,809</b>	<b>896,369</b>	<b>442,440</b>	<b>2,213,802</b>	<b>1,437,747</b>	<b>776,055</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

*Collateral held and other credit enhancements and their financial effect (cont'd)*

Type of Credit Exposure	Principal Type of Collateral Held for Secured Lending	Bank			Group		
		Loans and Advances B\$'000	Financial Effect of Collateral Held B\$'000	Net Exposure from Loans and Advances B\$'000	Loans and Advances B\$'000	Financial Effect of Collateral Held B\$'000	Net Exposure from Loans and Advances B\$'000
<b>2016</b>							
Agriculture	Cash / Property	4,818	4,806	12	4,818	4,806	12
Constructions and Property Financing	Mortgage / Cash	367,480	324,619	42,861	367,480	324,619	42,861
Financial	Cash / Property	186	186	-	186	186	-
Infrastructure	Cash / Property	13,497	13,018	479	13,497	13,018	479
Manufacturing	Cash / Debenture	65,575	41,278	24,297	65,575	41,278	24,297
Personal and Consumption Loans	Cash / Property	207,318	34,268	173,050	207,318	34,268	173,050
Services	Property / Cash	140,139	102,237	37,902	140,139	102,237	37,902
Telecommunication and Information Technology	Cash / Property	8,391	6,648	1,743	8,391	6,648	1,743
Tourism	Property / Debentures	8,042	7,784	258	8,042	7,784	258
Traders	Property / Cash	162,105	97,526	64,579	162,105	97,526	64,579
	Debentures / Property						
Transportation	Property	197,423	120,224	77,199	1,074,310	560,564	513,746
<b>Total</b>		<b>1,174,974</b>	<b>752,594</b>	<b>422,380</b>	<b>2,051,861</b>	<b>1,192,934</b>	<b>858,927</b>

*Cash and cash equivalents*

The Group held cash and cash equivalents of B\$1,396,452,000 at December 31 2017 (2016: B\$1,285,425,000). Most of the cash and cash equivalents, except deposits with the Autoriti Monetari Brunei Darussalam, are held with bank and financial institution counterparties which are rated at least with an investment grade.

*Settlement risk*

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

**Management of liquidity risk**

The Group's ALCO sets the Group's strategy for managing liquidity risk and has the responsibility for the oversight of the implementation of this policy. Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to the management and ALCO.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

Treasury receives information from other business units and reports from the system regarding the liquidity profile of financial assets and liabilities and details of other projected cash flows arising from projected future businesses. Treasury 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 within the Group. The liquidity requirements of business units are centrally managed by the Treasury department to cover any short-term fluctuations and longer term funding requirements.

Treasury monitors compliance with local regulatory limits on a daily basis.

**Exposure to liquidity risk**

The key 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.



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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

A similar, but not identical, calculation is used to measure the Bank's compliance with the Assets Management Ratio (AMR) requirements established by the regulator, Autoriti Monetari Brunei Darussalam.

Maturity analysis for financial assets and liabilities

The tables below set out the remaining contractual maturities of the Bank and the Group's financial assets and financial liabilities.

Bank	Carrying Amount B\$'000	Gross Nominal Inflow/ (Outflow) B\$'000	Less than 3 months B\$'000	3-6 months B\$'000	6-12 months B\$'000	1-3 years B\$'000	3-5 years B\$'000	Over 5 years B\$'000
<b>2017</b>								
<b><u>Non-Derivative Assets</u></b>								
Cash	36,232	36,232	36,232	-	-	-	-	-
Due from Banks / AMBD	1,565,076	1,570,965	1,416,300	50,254	21,086	65,479	16,674	1,172
Government Sukuk	9,909	10,000	-	-	10,000	-	-	-
Investment Securities	80,553	87,748	5,014	271	33,255	49,208	-	-
Loans and Advances	1,242,050	1,447,858	164,215	93,071	99,938	486,867	232,012	371,755
Other On Balance Sheet Assets	14,477	14,477	9	-	14,077	391	-	-
Other Off Balance Sheet Assets	95,887	95,887	95,887	-	-	-	-	-
<b>Total</b>	<b>3,044,184</b>	<b>3,263,167</b>	<b>1,717,657</b>	<b>143,596</b>	<b>178,356</b>	<b>601,945</b>	<b>248,686</b>	<b>372,927</b>
<b><u>Non-Derivative Liabilities</u></b>								
Deposits	2,488,658	2,497,001	864,341	421,054	449,142	747,889	14,575	-
Borrowings	80,252	80,469	80,469	-	-	-	-	-
Group Balances Payable	5,456	5,456	5,456	-	-	-	-	-
Other On Balance Sheet Liabilities	51,390	56,572	1,499	23	-	48,566	-	6,484
Other Off Balance Sheet Liabilities	95,887	95,887	95,887	-	-	-	-	-
Undrawn Credit Lines	781,778	781,778	781,778	-	-	-	-	-
<b>Total</b>	<b>3,503,421</b>	<b>3,517,163</b>	<b>1,829,430</b>	<b>421,077</b>	<b>449,142</b>	<b>796,455</b>	<b>14,575</b>	<b>6,484</b>
<b>Net cash Inflow / (Outflow)</b>	<b>(459,237)</b>	<b>(253,996)</b>	<b>(111,773)</b>	<b>(277,481)</b>	<b>(270,786)</b>	<b>(194,510)</b>	<b>234,111</b>	<b>366,443</b>
<b><u>Derivative Financial Instruments</u></b>								
- Inflow	-	29,373	3,821	22,519	2,765	267	-	-
- Outflow	-	(29,136)	(3,713)	(22,414)	(2,741)	(267)	-	-
<b>Total</b>	<b>-</b>	<b>237</b>	<b>108</b>	<b>105</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

Group	Carrying Amount B\$'000	Gross Nominal Inflow/ (Outflow) B\$'000	Less than 3 months B\$'000	3-6 months B\$'000	6-12 months B\$'000	1-3 years B\$'000	3-5 years B\$'000	Over 5 years B\$'000
<b>2017</b>								
<b>Non-Derivative Assets</b>								
Cash	39,856	39,856	39,856	-	-	-	-	-
Due from Banks / AMBD	1,629,620	1,635,509	1,480,844	50,254	21,086	65,479	16,674	1,172
Government Sukuk	9,909	10,000	-	-	10,000	-	-	-
Investment Securities	80,553	87,748	5,014	271	33,255	49,208	-	-
Loans and Advances	2,109,162	2,545,381	238,862	165,412	237,950	954,959	501,236	446,962
Other On Balance Sheet Assets	43,569	43,569	29,101	-	14,077	391	-	-
Other Off Balance Sheet Assets	95,887	95,887	95,887	-	-	-	-	-
<b>Total</b>	<b>4,008,556</b>	<b>4,457,950</b>	<b>1,889,564</b>	<b>215,937</b>	<b>316,368</b>	<b>1,070,037</b>	<b>517,910</b>	<b>448,134</b>
<b>Non-Derivative Liabilities</b>								
Deposits	3,282,521	2,272,721	787,162	318,344	429,958	722,682	14,575	-
Borrowings	80,252	80,469	80,469	-	-	-	-	-
Other On Balance Sheet Liabilities	58,496	63,678	8,605	23	-	48,566	-	6,484
Other Off Balance Sheet Liabilities	95,887	95,887	95,887	-	-	-	-	-
Undrawn Credit Lines	781,778	781,778	781,778	-	-	-	-	-
<b>Total</b>	<b>4,298,934</b>	<b>3,294,533</b>	<b>1,753,901</b>	<b>318,367</b>	<b>429,958</b>	<b>771,248</b>	<b>14,575</b>	<b>6,484</b>
<b>Net cash Inflow/(Outflow)</b>	<b>(290,378)</b>	<b>1,163,417</b>	<b>135,663</b>	<b>(102,430)</b>	<b>(113,590)</b>	<b>298,789</b>	<b>503,335</b>	<b>441,650</b>
<b>Derivative Financial Instruments</b>								
- Inflow	-	29,373	3,821	22,519	2,765	267	-	-
- Outflow	-	(29,136)	(3,713)	(22,414)	(2,741)	(267)	-	-
<b>Total</b>	<b>-</b>	<b>237</b>	<b>108</b>	<b>105</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

Bank	Carrying Amount B\$'000	Gross Nominal Inflow/ (Outflow) B\$'000	Less than 3 months B\$'000	3-6 months B\$'000	6-12 months B\$'000	1-3 years B\$'000	3-5 years B\$'000	Over 5 years B\$'000
<b>2016</b>								
<b><u>Non-Derivative Assets</u></b>								
Cash	32,230	32,230	32,230	-	-	-	-	-
Due from Banks / AMBD	1,767,189	1,775,105	1,459,125	73,506	92,286	113,132	37,049	7
Government Sukuk	24,524	24,620	14,620	-	10,000	-	-	-
Investment Securities	121,062	125,959	19,767	530	21,052	75,014	9,596	-
Loans and Advances	1,112,770	1,271,345	156,363	89,239	92,740	433,025	204,752	295,226
Other On Balance Sheet Assets	11,315	11,315	13	-	10,932	370	-	-
Other Off Balance Sheet Assets	110,366	110,366	110,366	-	-	-	-	-
<b>Total</b>	<b>3,179,456</b>	<b>3,350,940</b>	<b>1,792,484</b>	<b>163,275</b>	<b>227,010</b>	<b>621,541</b>	<b>251,397</b>	<b>295,233</b>
<b><u>Non-Derivative Liabilities</u></b>								
Deposits	2,718,951	2,730,048	1,051,924	420,608	496,444	722,221	38,851	-
Group Balances Payable	4,865	4,865	4,865	-	-	-	-	-
Other On Balance Sheet Liabilities	51,838	51,838	1,179	-	-	44,198	239	6,222
Other Off Balance Sheet Liabilities	110,366	110,366	110,366	-	-	-	-	-
Undrawn Credit Lines	750,961	750,961	750,961	-	-	-	-	-
<b>Total</b>	<b>3,636,981</b>	<b>3,648,078</b>	<b>1,919,295</b>	<b>420,608</b>	<b>496,444</b>	<b>766,419</b>	<b>39,090</b>	<b>6,222</b>
<b>Net Cash Inflow/(Outflow)</b>								
	(457,525)	(297,138)	(126,811)	(257,333)	(269,434)	(144,878)	212,307	289,011
<b><u>Derivative Financial Instruments</u></b>								
- Inflow	-	17,234	1,551	15,548	134	-	-	-
- Outflow	-	(17,521)	(1,599)	(15,777)	(145)	-	-	-
<b>Total</b>	<b>-</b>	<b>(287)</b>	<b>(48)</b>	<b>(229)</b>	<b>(11)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

Group	Carrying Amount B\$'000	Gross Nominal Inflow/ (Outflow) B\$'000	Less than 3 months B\$'000	3-6 months B\$'000	6-12 months B\$'000	1-3 years B\$'000	3-5 years B\$'000	Over 5 years B\$'000
<b>2016</b>								
<b><u>Non-Derivative Assets</u></b>								
Cash	34,954	34,954	34,954	-	-	-	-	-
Due from Banks / AMBD	1,828,114	1,836,030	1,520,050	73,506	92,286	113,132	37,049	-
Government Sukuk	24,524	24,620	14,620	-	10,000	-	-	7
Investment Securities	121,062	125,959	19,767	530	21,052	75,014	9,596	-
Loans and Advances	1,984,040	2,346,101	224,233	155,690	220,332	882,196	486,899	376,751
Other On Balance Sheet Assets	42,654	42,654	2,587	2,396	15,293	13,732	7,025	1,621
Other Off Balance Sheet Assets	110,366	110,366	110,366	-	-	-	-	-
<b>Total</b>	<b>4,145,714</b>	<b>4,520,684</b>	<b>1,926,577</b>	<b>232,122</b>	<b>358,963</b>	<b>1,084,074</b>	<b>540,569</b>	<b>378,379</b>
<b><u>Non-Derivative Liabilities</u></b>								
Deposits	3,519,655	3,541,198	1,207,100	423,814	641,204	1,230,229	38,851	-
Other On Balance Sheet Liabilities	57,315	57,315	6,656	-	-	44,198	239	6,222
Other Off Balance Sheet Liabilities	110,366	110,366	110,366	-	-	-	-	-
Undrawn Credit Lines	750,961	750,961	750,961	-	-	-	-	-
<b>Total</b>	<b>4,438,297</b>	<b>4,459,840</b>	<b>2,075,083</b>	<b>423,814</b>	<b>641,204</b>	<b>1,274,427</b>	<b>39,090</b>	<b>6,222</b>
Net Cash Inflow/(Outflow)	(292,583)	60,844	(148,506)	(191,692)	(282,241)	(190,353)	501,479	372,157
<b><u>Derivative Financial Instruments</u></b>								
- Inflow	-	17,234	1,551	15,548	134	-	-	-
- Outflow	-	(17,521)	(1,599)	(15,777)	(145)	-	-	-
<b>Total</b>	<b>-</b>	<b>(287)</b>	<b>(48)</b>	<b>(229)</b>	<b>(11)</b>	<b>-</b>	<b>-</b>	<b>-</b>

The above tables show the undiscounted cash flows on the Bank and the Group's non-derivative financial assets and liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

The gross nominal inflows / (outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial liabilities and assets held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts).

As part of the management of its liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks and holds unencumbered assets eligible for use as collateral.

**Market risks**

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. 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 optimising the return on risk.

**Management of market risks**

Overall authority for market risk is vested in the Management Committee. Management may set up limits for each type of risk in aggregate and for portfolios and is responsible for the day-to-day review of their implementation.

The Group monitors and limits market risk exposures through weekly management meetings.

**Exposure to interest rate risk**

The principal risk to which non-trading portfolios are exposed to is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps by the management and it is assisted by the Treasury in its day-to-day monitoring activities. A summary of the Group's interest rate bearing assets and liabilities position on the non-trading positions based on earlier of repricing or maturity dates is as follows:

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

Bank	Carrying Amount	Non-Interest Bearing	Interest Bearing					
			Less than 3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
<b>2017</b>								
<b>Financial Assets</b>								
Cash	36,232	36,232	-	-	-	-	-	-
Due from Banks / AMBD	1,565,076	236,486	1,179,589	49,245	20,747	65,165	13,844	-
Government Sukuk	9,909	-	-	-	9,909	-	-	-
Investment Securities	80,553	-	4,852	-	27,425	48,276	-	-
Loans and Advances	1,242,050	-	146,997	80,335	76,811	422,294	200,238	315,375
Other Assets	14,477	14,477	-	-	-	-	-	-
<b>Total</b>	<b>2,948,297</b>	<b>287,195</b>	<b>1,331,438</b>	<b>129,580</b>	<b>134,892</b>	<b>535,735</b>	<b>214,082</b>	<b>315,375</b>
<b>Financial Liabilities</b>								
Deposits	2,488,658	811,304	669,914	351,138	241,848	400,832	13,622	-
Borrowings	80,252	-	80,252	-	-	-	-	-
Group Balances Payable	5,456	5,456	-	-	-	-	-	-
Other Liabilities	51,390	51,390	-	-	-	-	-	-
<b>Total</b>	<b>2,625,756</b>	<b>868,150</b>	<b>750,166</b>	<b>351,138</b>	<b>241,848</b>	<b>400,832</b>	<b>13,622</b>	<b>-</b>
<b>2016</b>								
<b>Financial Assets</b>								
Cash	32,230	32,230	-	-	-	-	-	-
Due from Banks / AMBD	1,767,189	259,928	1,296,506	47,857	63,048	68,265	31,585	-
Government Sukuk	24,524	-	14,611	-	9,913	-	-	-
Investment Securities	121,062	-	19,369	-	19,169	73,108	9,416	-
Loans and Advances	1,112,770	-	134,249	77,540	73,486	371,940	169,365	286,190
Other Assets	11,315	11,315	-	-	-	-	-	-
<b>Total</b>	<b>3,069,090</b>	<b>303,473</b>	<b>1,464,735</b>	<b>125,397</b>	<b>165,616</b>	<b>513,313</b>	<b>210,366</b>	<b>286,190</b>
<b>Financial Liabilities</b>								
Deposits	2,718,951	894,593	835,822	344,179	268,023	340,901	35,433	-
Group Balances Payable	4,865	4,865	-	-	-	-	-	-
Other Liabilities	51,838	51,838	-	-	-	-	-	-
<b>Total</b>	<b>2,775,654</b>	<b>951,296</b>	<b>835,822</b>	<b>344,179</b>	<b>268,023</b>	<b>340,901</b>	<b>35,433</b>	<b>-</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

Group	Carrying Amount	Non-Interest Bearing	Interest Bearing					
			Less than 3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years
	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000	B\$'000
<b>2017</b>								
<b>Financial Assets</b>								
Cash	39,856	39,856	-	-	-	-	-	-
Due from Banks / AMBD	1,629,620	301,030	1,179,589	49,245	20,747	65,165	13,844	-
Government Sukuk	9,909	-	-	-	9,909	-	-	-
Investment Securities	80,553	-	4,852	-	27,425	48,276	-	-
Loans and Advances	2,109,162	-	214,091	136,253	194,434	792,088	399,471	372,825
Other Assets	43,569	43,569	-	-	-	-	-	-
<b>Total</b>	<b>3,912,669</b>	<b>384,455</b>	<b>1,398,532</b>	<b>185,498</b>	<b>252,515</b>	<b>905,529</b>	<b>413,315</b>	<b>372,825</b>
<b>Financial Liabilities</b>								
Deposits	3,282,521	754,299	809,721	356,776	428,669	919,434	13,622	-
Borrowings	80,252	-	80,252	-	-	-	-	-
Other Liabilities	58,496	58,496	-	-	-	-	-	-
<b>Total</b>	<b>3,421,269</b>	<b>812,795</b>	<b>889,973</b>	<b>356,776</b>	<b>428,669</b>	<b>919,434</b>	<b>13,622</b>	<b>-</b>
<b>2016</b>								
<b>Financial Assets</b>								
Cash	34,954	34,954	-	-	-	-	-	-
Due from Banks / AMBD	1,828,114	320,853	1,296,506	47,857	63,048	68,265	31,585	-
Government Sukuk	24,524	-	14,611	-	9,913	-	-	-
Investment Securities	121,062	-	19,369	-	19,169	73,108	9,416	-
Loans and Advances	1,984,040	-	194,805	130,658	183,172	737,812	388,298	349,295
Other Assets	42,654	42,654	-	-	-	-	-	-
<b>Total</b>	<b>4,035,348</b>	<b>398,461</b>	<b>1,525,291</b>	<b>178,515</b>	<b>275,302</b>	<b>879,185</b>	<b>429,299</b>	<b>349,295</b>
<b>Financial Liabilities</b>								
Deposits	3,519,655	839,581	993,086	355,781	431,254	864,520	35,433	-
Other Liabilities	57,315	57,315	-	-	-	-	-	-
<b>Total</b>	<b>3,576,970</b>	<b>896,896</b>	<b>993,086</b>	<b>355,781</b>	<b>431,254</b>	<b>864,520</b>	<b>35,433</b>	<b>-</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

The management of interest rate risk is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios. Scenarios that are considered on a monthly basis include a 10 basis point (bp) parallel fall or rise in all yield curves.

Interest rate movements affect reported retained earnings due to increases or decreases in net interest income and the fair value changes reported in profit or loss.

If interest rates had been 10 basis points higher or lower and all other variables were held constant, the Bank and the Group's projected net interest income for the year ended December 31, 2017 would increase by:

	Bank		Group	
	+0.10% B\$'000	-0.10% B\$'000	+0.10% B\$'000	-0.10% B\$'000
As at 31 December 2017	265	(265)	(634)	634
As at 31 December 2016	331	(331)	(517)	517

Overall non-trading interest rate risk positions are managed by Treasury and Finance department which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities.

**Foreign exchange risk**

Foreign exchange risk is the risk to earnings and value of financial instruments caused by fluctuations in foreign exchange rates.

Currency risks primarily arise for the fluctuation in the exchange rates on the open position of the Bank for all currencies other than its functional currency. The main dealing currencies of the Group are BND against major currencies, including USD, GBP, AUD and SGD. The Group is not exposed to foreign exchange risk for SGD due to the Currency Interchangeability Agreement between Singapore and Brunei Darussalam which interchange the two currencies at par. The Group has limited foreign exchange transactions and does not hold speculative trading positions. The Group manages the foreign exchange risk by monitoring the exposure against limits set by ALCO.



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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

<b>Bank and Group</b>	<b>USD B\$'000</b>	<b>GBP B\$'000</b>	<b>AUD B\$'000</b>	<b>Others B\$'000</b>
<b>2017</b>				
<b><u>Financial Assets</u></b>				
Cash	610	284	137	1,055
Due from Banks / AMBD	118,574	16,515	49,864	41,295
Loans and Advances	120,086	2	-	-
<b>Total</b>	<b>239,270</b>	<b>16,801</b>	<b>50,001</b>	<b>42,350</b>
<b><u>Financial Liabilities</u></b>				
Deposits	155,888	17,008	50,305	23,892
Borrowings	80,166	-	-	-
Others	89	-	-	25
<b>Total</b>	<b>236,143</b>	<b>17,008</b>	<b>50,305</b>	<b>23,917</b>
<b>Off Balance Sheet Derivative Financial Instruments</b>	<b>(10,690)</b>	<b>-</b>	<b>151</b>	<b>(18,383)</b>
<b>2016</b>				
<b><u>Financial Assets</u></b>				
Cash	870	483	228	1,072
Due from Banks / AMBD	27,994	23,155	49,629	34,576
Loans and Advances	143,549	-	-	-
<b>Total</b>	<b>172,413</b>	<b>23,638</b>	<b>49,857</b>	<b>35,648</b>
<b><u>Financial Liabilities</u></b>				
Deposits	167,537	23,757	50,237	18,348
Others	60	2	-	24
<b>Total</b>	<b>167,597</b>	<b>23,759</b>	<b>50,237</b>	<b>18,372</b>
<b>Off Balance Sheet Derivative Financial Instruments</b>	<b>(10,686)</b>	<b>-</b>	<b>30</b>	<b>(17,874)</b>

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.4 FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

The estimated impact for the Bank and the Group for a 10% change in the foreign exchange rates (USD, GBP, AUD and others) against BND is shown below:

Bank and Group	USD	GBP	AUD	Others
	+/- 10%	+/- 10%	+/- 10%	+/- 10%
	B\$'000	B\$'000	B\$'000	B\$'000
As at 31 December 2017	(756)	(21)	(15)	5
As at 31 December 2016	(587)	(12)	(35)	(60)

**Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group's policy requires compliance with all applicable legal and regulatory requirements.

The Executive Committee ("EXCO") has delegated responsibility for operational risk to its Deputy General Manager of the Operations Management Division (OMD) who is responsible for the development and implementation of procedures and processes to address operational risk.

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.5 FAIR VALUE MEASUREMENTS**

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

**Fair values of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Bank and Group	Fair Value as at		Level of the Fair Value Hierarchy	Valuation Technique(s) & Key input(s)
	2017 B\$'000	2016 B\$'000		
<b><u>Assets</u></b>				
Investment Securities – Index Linked Notes	18,121	41,550	2	Reuters Quote or Adjusted Quoted Prices
Investment Securities – Real Estate Investment Trust	193	189	1	Quoted Prices
Derivative Assets	228	386	2	Reuters Quote
<b>Total</b>	<b>18,542</b>	<b>42,125</b>		
<b><u>Liabilities</u></b>				
Deposits from Customers – Structured Deposits	17,883	17,282	2	Reuters Quote or Adjusted Quoted Prices
Derivative liabilities	111	359	2	Reuters Quote
<b>Total</b>	<b>17,994</b>	<b>17,641</b>		

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**4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES (cont'd)**

**4.5 FAIR VALUE MEASUREMENTS (cont'd)**

**Financial assets and financial liabilities not measured at fair value on the statements of financial position**

**Fair value of financial instruments**

Where possible, fair values have been estimated using market prices for financial instruments. Where market prices are not available, fair values have been estimated using quoted prices for financial instruments with similar characteristics, or otherwise using a suitable valuation technique where practicable to do so. The fair value information presented represents the Group's best estimate of those values and may be subject to certain assumptions and limitations.

**Methodologies**

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

**Financial instruments for which carrying value approximates fair value**

These include cash and balances with AMBD, deposits from customers, deposits from banks and other financial institutions, loans and advances and intercompany balances which reprice generally within six months of the reporting date, and accrued interest receivable and payable. The carrying value of these financial instruments is an approximation of the fair value because they are either short-term in nature, reprice frequently or are receivable or payable on demand and do not have significant credit risk.

**Loans and advances to customers**

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

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

**Deposits by customers**

Deposits by customer which mature or reprice after six months from the reporting date are grouped by residual maturity. The fair value is calculated using discounted cash flow models, based on the deposit type and its related maturity, applying either market rates, where applicable or current rates offered for deposits of similar remaining maturities.

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**4.5 FAIR VALUE MEASUREMENTS (cont'd)**

**Derivative financial instruments**

The fair values of derivative financial instruments such as foreign exchange contracts are based on quoted market prices at the balance sheet date.

**Summary**

The fair value of certain financial assets and liabilities approximate their carrying values at the end of the reporting period. Accordingly, the Group has not disclosed the fair value and their levels in the fair value hierarchy for financial assets and liabilities carried at amortised cost.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	Bank and Group			
	2017		2016	
	Carrying Amount B\$'000	Fair Value B\$'000	Carrying Amount B\$'000	Fair Value B\$'000
<b>Financial Assets</b>				
Held to Maturity Investments				
-Government Sukuk	9,909	9,909	24,524	24,524
-Investment Securities	62,239	61,932	79,323	81,101
<b>Total</b>	<b>72,148</b>	<b>71,841</b>	<b>103,847</b>	<b>105,625</b>
	Fair Value Hierarchy			
	Level 1 B\$'000	Level 2 B\$'000	Level 3 B\$'000	Total B\$'000
<b>2017</b>				
<b>Financial Assets</b>				
Held to Maturity Investments				
-Government Sukuk	-	-	9,909	9,909
-Investment Securities	61,932	-	-	61,932
<b>Total</b>	<b>61,932</b>	<b>-</b>	<b>9,909</b>	<b>71,841</b>
<b>2016</b>				
<b>Financial Assets</b>				
Held to Maturity Investments				
-Government Sukuk	-	-	24,524	24,524
-Investment Securities	81,101	-	-	81,101
<b>Total</b>	<b>81,101</b>	<b>-</b>	<b>24,524</b>	<b>105,625</b>

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

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**5 NET INTEREST INCOME**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>Interest Income</b>				
Loans and Advances	64,996	65,010	120,854	121,214
Government Sukuk	144	140	144	140
Investment Securities	1,540	3,284	1,540	3,284
Placements with Other Banks	16,338	10,574	16,338	10,574
Others	3	20	3	20
<b>Total Interest Income</b>	<b>83,021</b>	<b>79,028</b>	<b>138,879</b>	<b>135,232</b>
<b>Interest Expense</b>				
Deposits and Borrowings	13,459	12,248	18,819	18,476
<b>Net Interest Income</b>	<b>69,562</b>	<b>66,780</b>	<b>120,060</b>	<b>116,756</b>

Total interest income and expense calculated using the effective interest method are reported above. The effective interest relating to financial assets or liabilities carried at fair value through profit or loss for the Bank's and Group's included above is an interest income of B\$557,130 (2016: B\$838,470) and an interest expense of B\$337,621 (2016: B\$362,421) respectively.

**6 OTHER OPERATING INCOME**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Fees, charges and others	23,393	16,500	27,970	19,360
Dividend income from Subsidiary	14,439	20,000	-	-
Realised and Unrealised gains from Foreign Exchange transactions	6,349	5,009	6,350	5,009
Gains on Disposal of Property, Plant and Equipment	39	5	39	17
<b>Total</b>	<b>44,220</b>	<b>41,514</b>	<b>34,359</b>	<b>24,386</b>

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**7 NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	Bank and Group	
	2017 B\$'000	2016 B\$'000
<b>Investment Securities at Fair Value Through Profit or Loss:</b>		
- Index Linked Notes	1,717	153
- Real Estate Investment Trust	4	-
<b>Deposits at Fair Value Through Profit or Loss:</b>		
- Structured Deposit	(952)	(154)
<b>Total</b>	<b>769</b>	<b>(1)</b>

**8 PERSONNEL EXPENSES**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Salaries and Wages	20,976	19,697	25,208	23,584
Allowances and Bonuses	5,483	4,778	6,588	5,839
Others	2,815	2,652	3,230	3,045
<b>Total</b>	<b>29,274</b>	<b>27,127</b>	<b>35,026</b>	<b>32,468</b>

**9 OTHER OVERHEAD EXPENSES**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>Promotion</b>				
Advertisement & Publicity	2,016	2,272	2,332	2,552
<b>Operational</b>				
Depreciation	4,166	4,677	4,548	5,102
Repair and maintenance	3,042	3,524	3,665	4,146
Rental	1,777	1,724	2,448	2,389
Hire of Equipment	174	190	177	190
<b>General Expenses</b>				
Auditors' Fees	295	300	385	395
Professional Fees	2,140	2,094	3,094	3,100
Loss on Disposal of Fixed Assets	-	1	-	1
Loss on Disposal of Investment Securities	200	482	200	483
Dealer's commission and incentives	-	-	11,173	13,201
Others	13,323	9,808	20,331	16,752
<b>Total</b>	<b>27,133</b>	<b>25,072</b>	<b>48,353</b>	<b>48,311</b>

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**10 INCOME TAX EXPENSE**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>Recognised in the Profit &amp; Loss Statements</b>				
<b>Current Tax Expense</b>				
Current year	8,428	9,155	12,074	12,920
<b>Deferred Tax Expense</b>				
Origination & reversal of temporary differences	-	(2,332)	-	(2,332)
<b>Total Income Tax Expense</b>	<b>8,428</b>	<b>6,823</b>	<b>12,074</b>	<b>10,588</b>
<b>Movement in Provision for Taxation</b>				
Opening Balance as at 1 January	13,486	10,839	34,330	33,322
Current year provision	8,428	9,155	12,074	12,920
Income tax paid	(6,550)	(6,508)	(10,055)	(11,912)
<b>Closing balance as at 31 December</b>	<b>15,364</b>	<b>13,486</b>	<b>36,349</b>	<b>34,330</b>
<b>Reconciliation of Effective Tax Rate at 18.50%</b>				
Profit before income tax	58,619	51,932	65,725	51,622
Income Tax using the domestic corporation tax rate	10,844	9,607	12,159	9,550
Tax effect of non-taxable revenue and others	(2,416)	(2,784)	(85)	1,038
<b>Total</b>	<b>8,428</b>	<b>6,823</b>	<b>12,074</b>	<b>10,588</b>

**11 CASH AND SHORT TERM FUNDS**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Cash in hand	36,232	32,230	39,856	34,954
Balances with Banks and Other Financial Institutions	236,486	105,624	239,055	107,723
Money at call and short notice and interbank	6,680	15,910	6,680	15,910
Placements with remaining maturity not exceeding one year	1,321,910	1,491,350	1,321,910	1,491,350
<b>Total</b>	<b>1,601,308</b>	<b>1,645,114</b>	<b>1,607,501</b>	<b>1,649,937</b>



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**12 BALANCES WITH AUTORITI MONETARI BRUNEI DARUSSALAM (AMBD)**

This is maintained as required by the provisions of Section 45 of the Brunei Darussalam Banking Order 2006 and a directive issued by the Autoriti Monetari Brunei Darussalam in accordance with Section 25(2) of the Finance Companies Act, Cap.89. This is not available for use in the Bank and its subsidiaries' day to day operations. At present the minimum cash reserve requirement is 6% (2016: 6%) of the deposit liabilities and is maintained under the RTGS account with AMBD.

**13 DERIVATIVE FINANCIAL INSTRUMENTS**

	Bank and Group		
	Notional B\$'000	Asset B\$'000	Liability B\$'000
<b>2017</b>			
Foreign Exchange Contracts	29,351	228	111
<b>2016</b>			
Foreign Exchange Contracts	29,472	386	359

**14 GOVERNMENT SUKUK**

	Bank / Group	
	2017 B\$'000	2016 B\$'000
Government Sukuk – Held to maturity	9,909	24,524

**15 INVESTMENT SECURITIES**

	Bank / Group	
	2017 B\$'000	2016 B\$'000
<b>Quoted Debt Securities, at amortised cost</b>		
- Corporate Bonds	67,464	82,323
Less : Impairment of Investments	(5,225)	(3,000)
<b>Total Securities – Held to Maturity, at amortised cost</b>	<b>62,239</b>	<b>79,323</b>
<b>Unquoted Debt Securities, at Fair value</b>		
- Indexed linked Deposits	18,121	41,550
<b>Quoted Debt Securities, at Fair value</b>		
- Real Estate Investment Trust	193	189
<b>Total Securities – Fair value through Profit or Loss</b>	<b>18,314</b>	<b>41,739</b>
<b>Total</b>	<b>80,553</b>	<b>121,062</b>

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**15 INVESTMENT SECURITIES (cont'd)**

The table below sets out a reconciliation of changes in the impairment of Quoted Debt Securities held at amortised cost.

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Balances as at 1 January	3,000	-	3,000	-
Impairment during the year	2,225	3,000	2,225	3,000
<b>Balances as at 31 December</b>	<b>5,225</b>	<b>3,000</b>	<b>5,225</b>	<b>3,000</b>

**16 LOANS AND ADVANCES**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>By Type:</b>				
Cash line / Overdrafts	189,397	179,930	189,397	179,930
Term Loans				
- Property Loans	335,199	232,135	335,199	232,135
- Hire Purchase Receivables	-	-	874,993	876,887
- Other Term Loans	642,669	591,688	642,669	591,688
Bills Receivable	-	65	-	65
Trust Receipts	112,419	121,419	112,419	121,419
Staff Loans	5,523	5,724	5,523	5,724
Credit / Charge cards	39,282	29,511	39,282	29,511
Revolving credit	6,493	13,425	6,493	13,425
Syndicated Loan	6,670	-	6,670	-
Others	1,157	1,077	1,157	1,077
<b>Gross Loans and advances</b>	<b>1,338,809</b>	<b>1,174,974</b>	<b>2,213,802</b>	<b>2,051,861</b>
Less: Loan Loss Provision				
- General	(6,730)	(6,622)	(9,708)	(8,940)
- Specific	(90,029)	(55,582)	(94,932)	(58,881)
<b>Net Loans and advances</b>	<b>1,242,050</b>	<b>1,112,770</b>	<b>2,109,162</b>	<b>1,984,040</b>

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**16 LOANS AND ADVANCES (cont'd)**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>Movement in the Allowance for Collective Impairment Losses</b>				
Balance at the beginning of the year	6,622	3,326	8,940	5,306
Addition due to loans acquired during the year	-	-	619	-
<i>Increase in allowance recognised in Profit or Loss:</i>				
Amounts provided during the year	108	3,296	149	3,634
<b>Balance at the end of the year</b>	<b>6,730</b>	<b>6,622</b>	<b>9,708</b>	<b>8,940</b>
<b>Movement in the Allowance for Specific Impairment Losses</b>				
Balance at the beginning of the year	55,582	56,458	58,882	59,298
Amounts written off	(4,556)	(6,113)	(10,208)	(9,782)
Addition due to loans acquired during the year	25,265	-	25,682	-
Transfer from retained profits	8,320	-	8,320	-
<i>Increase/(Decrease) in allowance recognised in Profit or Loss:</i>				
Amounts provided during the year	9,647	11,151	22,095	21,959
Amounts recovered/reversed during the year	(4,229)	(5,914)	(9,839)	(12,594)
<b>Balance at the end of the year</b>	<b>90,029</b>	<b>55,582</b>	<b>94,932</b>	<b>58,881</b>

The Bank uses AMBD Guideline (2016: AMBD Guideline) and a subsidiary uses AMBD Guideline (2016: AMBD Guidelines), being the higher of AMBD Guideline or IAS 39, to recognise the allowances for impairment losses at the individual company level. During the year, AMBD had revised the guidelines for the valuation of collateral for provisioning purposes for applicable financing accounts and the resulting accounting treatment due to the revision.

**17 INVESTMENT IN SUBSIDIARIES**

Name of Company	Principal Activity	Cost		% Holding	
		2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Baiduri Finance Berhad	Finance Company	25,249	25,249	100%	100%
Baiduri Capital Sdn Bhd	Sharebrokers & Dealers in Securities & Investments of all kinds	2,700	2,700	99.99%	99.99%
<b>Total</b>		<b>27,949</b>	<b>27,949</b>		

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**18 PROPERTY, PLANT AND EQUIPMENT**

Bank	Freehold Land and Buildings B\$'000	Leasehold Land and Buildings B\$'000	Leasehold Improve- -nts B\$'000	Computers B\$'000	Equipment / Furniture B\$'000	Motor Vehicles B\$'000	Total 2017 B\$'000	Total 2016 B\$'000
<b>Cost</b>								
As at beginning of the year	3,683	17,251	2,054	14,162	2,833	553	40,536	42,327
Additions	1,280	80	1,628	4,348	294	62	7,692	3,545
Disposals	-	-	(293)	(1,205)	(702)	(45)	(2,245)	(5,336)
Written-Off	-	(3,000)	-	-	-	-	(3,000)	-
As at end of year	4,963	14,331	3,389	17,305	2,425	570	42,983	40,536
<b>Accumulated Depreciation</b>								
As at beginning of the year	392	1,027	1,049	6,306	1,543	166	10,483	11,132
Depreciation for the year	69	355	619	2,524	488	111	4,166	4,677
Disposals	-	-	(307)	(1,167)	(702)	(39)	(2,215)	(5,326)
As at end of the year	461	1,382	1,361	7,663	1,329	238	12,434	10,483
<b>Carrying Amounts</b>								
As at 31 December 2017	4,502	12,949	2,028	9,642	1,096	332	30,549	-
As at 31 December 2016	3,291	16,224	1,005	7,856	1,290	387	30,053	-
Group	Freehold Land and Buildings B\$'000	Leasehold Land and Buildings B\$'000	Leasehold Improve- -nts B\$'000	Computers B\$'000	Equipment / Furniture B\$'000	Motor Vehicles B\$'000	Total 2017 B\$'000	Total 2016 B\$'000
<b>Cost</b>								
As at the beginning of the year	3,683	17,251	2,915	15,032	3,451	652	42,984	44,569
Additions	1,280	80	1,722	4,453	357	62	7,954	3,806
Disposals	-	-	(293)	(1,205)	(702)	(45)	(2,245)	(5,391)
Written-Off	-	(3,000)	-	-	-	-	(3,000)	-
As at end of the year	4,963	14,331	4,344	18,280	3,106	669	45,693	42,984
<b>Accumulated Depreciation</b>								
As at beginning of the year	392	1,027	1,446	6,940	1,926	186	11,917	12,195
Depreciation for the year	69	355	793	2,628	573	130	4,548	5,102
Disposals	-	-	(306)	(1,168)	(701)	(39)	(2,214)	(5,380)
As at end of the year	461	1,382	1,933	8,400	1,798	277	14,251	11,197
<b>Carrying Amounts</b>								
As at 31 December 2017	4,502	12,949	2,411	9,880	1,308	392	31,442	-
As at 31 December 2016	3,291	16,224	1,469	8,092	1,525	466	31,067	-

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2016: nil).

Included in the Leasehold Land and Buildings is a building on a 99 years leasehold land with an annual lease payment of B\$72,000 for the land.

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**19 OTHER ASSETS**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Accounts Receivables	385	394	530	530
Sundry Debtors	14,092	10,921	14,280	11,039
Prepayments and consumables	1,641	1,701	1,816	1,783
Dealer's commission and incentives	-	-	28,759	31,085
<b>Total</b>	<b>16,118</b>	<b>13,016</b>	<b>45,385</b>	<b>44,437</b>

**20 DEPOSITS FROM CUSTOMERS**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>By type of Deposit</b>				
Demand Deposits	748,241	831,080	750,547	833,136
Savings Deposits	599,251	493,243	1,488,604	1,352,815
Fixed Deposits	911,632	1,188,834	1,039,617	1,327,259
<b>Total</b>	<b>2,259,124</b>	<b>2,513,157</b>	<b>3,278,768</b>	<b>3,513,210</b>

**21 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Licensed Conventional Bank in Brunei Darussalam	31	456	31	456
Licensed Finance Companies in Brunei Darussalam	225,781	199,349	-	-
Banks and Financial Institutions Abroad	3,722	5,989	3,722	5,989
<b>Total</b>	<b>229,534</b>	<b>205,794</b>	<b>3,753</b>	<b>6,445</b>

**22 BORROWINGS**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>By Product</b>				
Call money Borrowing	80,252	-	80,252	-
<b>By Maturity</b>				
Due within One year	80,252	-	80,252	-

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**23 GROUP BALANCES PAYABLE**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Due to Subsidiaries	5,456	4,865	-	-

**24 OTHER LIABILITIES**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Other Creditors	963	245	7,668	3,898
Accrued Expenditure and provisions	20,060	24,031	20,424	24,413
Provision for Bonuses and End of Service Benefits	11,498	10,674	13,380	12,268
Others	25,352	22,989	25,389	24,431
<b>Total</b>	<b>57,873</b>	<b>57,939</b>	<b>66,861</b>	<b>65,010</b>

**25 DEFERRED TAX ASSETS AND LIABILITIES**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Balances as at 1 January	8,446	10,778	8,493	10,825
Decrease in Provision	-	(2,332)	-	(2,332)
<b>Balances as at 31 December</b>	<b>8,446</b>	<b>8,446</b>	<b>8,493</b>	<b>8,493</b>

**26 SHARE CAPITAL**

	Bank and Group	
	2017 B\$'000	2016 B\$'000
<b>Authorised</b>		
200,000,000 Ordinary shares of B\$1 each	200,000	200,000
<b>Issued and Paid Up</b>		
150,000,000 Ordinary shares of B\$1 each	150,000	150,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time. At any General Meeting, every member present in person, shall have on a show of hands have one vote. All ordinary shares rank equally with regard to the Bank and Group's residual assets.

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**27 STATUTORY RESERVES**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
Balances as at 1 January	115,488	104,211	144,122	132,032
Add: Transfer during the year	12,605	11,277	13,505	12,090
<b>Balances as at 31 December</b>	<b>128,093</b>	<b>115,488</b>	<b>157,627</b>	<b>144,122</b>

**28 OTHER RESERVES**

	Bank		Group	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>Retained Profits</b>				
Balances as at 1 January	54,491	34,809	141,461	126,667
Profit for the financial year	50,191	45,109	53,651	41,034
Less: Transfer during the year	(20,925)	(11,277)	(21,825)	(12,090)
Dividend	(14,500)	(14,150)	(14,500)	(14,150)
<b>Balances as at 31 December</b>	<b>69,257</b>	<b>54,491</b>	<b>158,787</b>	<b>141,461</b>
<b>General Reserve</b>				
Opening and closing balance	5,154	5,154	5,154	5,154
<b>Total Other Reserves</b>	<b>74,411</b>	<b>59,645</b>	<b>163,941</b>	<b>146,615</b>

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**29 CONTINGENCIES AND COMMITMENTS**

In the normal course of business, the Bank 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.

	<b>Bank and Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>B\$'000</b>	<b>B\$'000</b>
<b>Contingencies</b>		
Letters of Credit	63,718	79,174
Guarantees, Bonds	166,745	197,939
Shipping Guarantees	-	73
Acceptances	2,818	1,720
Forward purchase	29,351	29,472
<b>Sub-Total</b>	<b>262,632</b>	<b>308,378</b>
<b>Commitments</b>		
Undrawn Credit Lines	781,778	750,961
<b>Sub-Total</b>	<b>781,778</b>	<b>750,961</b>
<b>Total Contingencies and Commitments</b>	<b>1,044,410</b>	<b>1,059,339</b>

**30 CASH AND CASH EQUIVALENTS**

	<b>Bank</b>		<b>Group</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>
Cash in hand	36,232	32,230	39,856	34,954
Balances and placements with banks and other financial contractual maturity of less than 3 months	1,354,029	1,248,373	1,356,596	1,250,471
<b>Total</b>	<b>1,390,261</b>	<b>1,280,603</b>	<b>1,396,452</b>	<b>1,285,425</b>

**31 LEASE COMMITMENTS**

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows.

	<b>Bank</b>		<b>Group</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>	<b>B\$'000</b>
Less than one year	1,169	792	1,711	1,319
Between one and five years	2,403	1,197	4,201	2,980
More than five years	50	137	447	919
<b>Total</b>	<b>3,622</b>	<b>2,126</b>	<b>6,359</b>	<b>5,218</b>

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a period of 1 to 10 years, and with an option to renew the lease after that date.



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**32 RELATED PARTY TRANSACTIONS**

The Bank and the Group considered members of the board of directors as key management personnel of the Bank and the Group

Some of the Bank's transactions and arrangements are with related parties and subsidiary companies and the effect of these on the basis determined between the parties are reflected in these financial statements.

(i) Transactions with Key Management Personnel for Bank and Group:

	2017 B\$'000	2016 B\$'000
<b>Statements of Financial Position</b>		
<b>Assets</b>		
Loans and Advances (exclude Credit cards)	2,288	2,303
Credit Cards (Secured)	319	396
<b>Total</b>	<b>2,607</b>	<b>2,699</b>
<b>Liabilities</b>		
Deposits	54,547	53,588
<b>Total</b>	<b>54,547</b>	<b>53,588</b>
<b>Off Balance Sheet items</b>		
Undrawn Facilities	1,239	1,108
<b>Total</b>	<b>1,239</b>	<b>1,108</b>
<b>Statements of Profit or Loss and Other Comprehensive Income</b>		
<b>Income</b>		
Interest Income	113	120
<b>Total</b>	<b>113</b>	<b>120</b>
<b>Expenses</b>		
Interest Expenses	1,420	2,364
Other Expenses	3,054	2,934
<b>Total</b>	<b>4,474</b>	<b>5,298</b>

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**32 RELATED PARTY TRANSACTIONS (cont'd)**

- (ii) The group related party, shall include parent, subsidiaries and other related companies.

	Subsidiaries		Other Related Companies	
	2017 B\$'000	2016 B\$'000	2017 B\$'000	2016 B\$'000
<b>Statements of Financial Position</b>				
<b>Assets</b>				
Loans and Advances (exclude Credit cards)	-	-	41,570	30,233
Credit Cards (Secured)	-	-	41	24
Other assets	5	55	-	-
<b>Total</b>	<b>5</b>	<b>55</b>	<b>41,611</b>	<b>30,257</b>
<b>Liabilities</b>				
Deposits	225,781	199,349	74,605	88,204
Other Liabilities	5,462	4,920	-	-
<b>Total</b>	<b>231,243</b>	<b>204,269</b>	<b>74,605</b>	<b>88,204</b>
<b>Off-Balance sheet items</b>				
Letters of Credit	-	-	-	59
Guarantees	-	-	654	833
Undrawn Facilities	-	-	15,054	26,735
Contingencies and Other Commitments	-	-	6,479	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>22,187</b>	<b>27,627</b>
<b>Statements of Profit or Loss and Other Comprehensive Income</b>				
<b>Income</b>				
Interest Income	-	-	232	250
<b>Total</b>	<b>-</b>	<b>-</b>	<b>232</b>	<b>250</b>
<b>Expenses</b>				
Interest Expenses	1,246	39	1,987	1,479
<b>Total</b>	<b>1,246</b>	<b>39</b>	<b>1,987</b>	<b>1,479</b>