

CORPORATE GOVERNANCE

AS AT 31 DECEMBER 2019

Baiduri Bank Group (referred to as “the Group”) is committed to upholding good corporate governance standards and is guided by the Corporate Governance Guidelines issued by Autoriti Monetari Brunei Darussalam (AMBD) BU/G-1/2017/5 issued on 2 March 2017 with the date of implementation from 1 January 2018.

INFORMATION ON THE BOARD

BOARD COMPOSITION

The Board comprises of 6 members whose names are listed below.

	Name of Members	
1	YAM Pg Muda Dr Abdul Fattaah (Chairman)	Non-Executive and Non-Independent
2	YM Dato Paduka Timothy Ong	Non-Executive and Independent
3	Dyg Norliah bte Haji Kula	Non-Executive and Independent
4	Haji Sofian bin Jani	Non-Executive and Independent
5	Mr. Pierre Imhof	Non-Executive and Independent
6	Mr. Bertie Cheng	Non-Executive and Independent

Board Duties

The Board’s roles and responsibilities are:

- Providing strategic direction, leadership and guidance
- Reviewing and approving business strategies as recommended by Senior Management
- Ensuring decisions and investments are consistent with long term strategic goals
- Oversee through the Audit Committee, the quality and integrity of internal controls
- Providing oversight over the risk appetite and activities through the Risk Management Committee

Board Delegation

The Board has delegated certain functions to five board committees namely, the Executive Committee (EXCO), the Nomination Committee (NC), Remuneration Committee (RC), Audit Committee (AC) and Risk Management Committee (RMC).

The Board meets four times a year and may also meet whenever there is urgent business to deal with.

All the directors at the Board and board committee meetings in 2019 have met the minimum number of required attendance or if unable to, been subsequently provided with the relevant information of the meetings.

Number of meetings attended in 2019	Board of Directors	Executive Committee	Nomination Committee	Remuneration Committee	Audit Committee	Risk Management Committee
Frequency of meetings	4	4	2	Min. 1	4	4

The Nomination Committee (NC) will assess the independence and the composition of the directors on a yearly basis under Guidelines for Corporate Governance for Banks issued 2 March 2017 from Autoriti Monetari Brunei Darussalam (AMBD) Section 2.11.

BOARD COMMITTEES

Executive Committee

The EXCO comprises of 3 members, 2 directors and the Chief Executive Officer. The members are:

	Name of Members
1	Mr. Ti Eng Hui
2	Mr. Bertie Cheng (Chairman)
3	Mr. Pierre Imhof

The main responsibilities of the EXCO are:

- Monitoring the Group's monthly financial performance (Profit and Loss, Balance Sheet)
- Reviewing and approving credit facilities to customers within its delegation, or recommends to the Board when it exceeds its delegation
- Reviewing and approve the limits of sub-delegation of its credit risk delegation to the Bank Credit Committee
- Review NPL's, recovery actions and written-off debts
- Overseeing Treasury and capital market activities and ALCO activities
- Reviewing and approving Treasury investments, credit risks on financial institutions/counterparties and market risks within its delegation or recommending to the Board when it exceeds its delegation
- Reviewing and recommending the annual budget and strategic plans
- Performing all other functions delegated by the Board

Nomination Committee

The NC comprises of three members, the majority of whom are independent directors. The members are:

	Name of Members
1	YAM Pg Muda Dr Abdul Fattaah
2	YM Dato Paduka Timothy Ong
3	Mr. Bertie Cheng (Chairman)

The main responsibilities of the NC are:

- To make recommendations to the Board on all appointments to the Board and Senior Management in line with the Corporate Governance principles laid out by AMBD on the best practices for Banks
- To make recommendations to the Board on relevant matters relating to:
 - i. The review of Board succession plans for directors, in particular the Chairman and for the CEO (if appointed as director)
 - ii. The development of a process for evaluation of the performance of the Board, its Board committees and directors

- iii. Review the training and professional development programs for the Board
- iv. Recommend the appointment and re-appointment of directors

Audit Committee

The AC comprises of five members, the majority of whom are independent directors. The members are:

	Name of Members
1	YAM Pg Muda Dr Abdul Fattaah
2	YM Dato Paduka Timothy Ong
3	Dyg Norliah bte Haji Kula (Chairman)
4	Mr. Bertie Cheng
5	Mr. Pierre Imhof

The purpose of the AC is to provide a structured, systematic oversight of the Group’s governance, risk management and internal controls system including financial, operational and information technology controls. The AC assists the Board and Senior Management by providing advice and guidance on the adequacy of the organisation’s initiatives for:

- Values and ethics
- Governance structure
- Risk management
- Internal control framework
- Oversight of internal audit activity, external auditors and other providers of assurance
- Financial statement and public accountability reporting

Remuneration Committee

The RC comprises of three members, the majority of whom are independent directors. The members are:

	Name of Members
1	YAM Pg Muda Dr Abdul Fattaah
2	YM Dato Paduka Timothy Ong (Chairman)
3	Mr. Bertie Cheng

The main responsibilities of the RC are:

- Establish formal and transparent policies and procedures for fixing the remuneration packages of Board members, Chief Executive Officer (CEO) and Senior Management including the Head of Group Risk, the Head of Internal Audit and the Head of Group Compliance.
- In setting remuneration packages, the RC should consider:
 - o To ensure that the remuneration policy supports the Bank’s objectives, culture and strategy
 - o Remuneration and employment conditions of the industry
 - o The Bank’s relative performance
 - o The performance-related elements of remuneration should form a significant proportion of the total remuneration package of the Executive Directors

- The remuneration of Non-Executive Directors should be appropriate to the level of contribution
- To cover all aspects of remuneration including directors' fees, salaries, allowances, bonuses etc.

Group Remuneration Policy

The Group Remuneration Policy applies to the Bank and all its subsidiaries with the Group and guides the design, operation and management of its remuneration programmes. The policy sets out the principles and philosophies that are adopted to attract, motivate and retain a highly skilled workforce across the Group while driving business strategic objectives, corporate and shareholder values.

The Group adopts a performance driven approach to compensation. Compensation packages are linked to personal performance and the overall performance of the Group.

The total compensation packages for employees comprise of 2 main components: fixed pay and variable pay. Fixed pay consists of a basic salary and a fixed bonus (13th month). Employees may be eligible for fixed allowances depending on their respective function. The variable pay rewards employees based on the performance of the Group and their individual performances measured through Group Annual Performance Appraisal process.

To ensure that total compensation is fair, the value of each position is benchmarked against comparable positions in the market. Independent industry surveys conducted by external consultants are used as a reference for employee salary benchmarking purposes.

Compensation is tied to the achievement of business and performance objectives. Each business unit has its own performance measures that match their functions and objectives and these objectives are consistent to the Group's risk appetite.

The remuneration packages and performance of control function staff are determined independent of the business line they oversee. The employees of these control function are assessed based on their performance measures which should be based principally on the achievement of the objectives of their functions.

The RC recommends the remuneration for Executive Directors and Non-Executive Directors of the Bank.

The attendance fee is determined based on the level of responsibility undertaken and contribution to the effective functioning of the Board. This fixed fee is payable to all directors and applicable to each of their attendance on the Board meeting, Executive Committee meeting and Audit and Risk Committee meetings held.

The annual directors' fee is determined based on the profitability of the Group and paid the following year.

Risk Management Committee

The RMC comprises of five members, the majority of whom are independent directors. The members are:

	Name of Members
1	YAM Pg Muda Dr Abdul Fattaah
2	YM Dato Paduka Timothy Ong (Chairman)
3	Haji Sofian bin Jani
4	Mr. Bertie Cheng
5	Mr. Pierre Imhof

The RMC is established to assist the Board in fulfilling its oversight responsibilities for the Group risk management framework and the Group's corporate risk structure including the strategies, policies, processes, procedures, and systems established by Senior Management to identify, assess, measure, manage and monitor the Group's significant financial, operational and other risk exposures.

The main responsibilities of the RMC are:

- To advise the Board on the Group's overall current and future risk appetite
- Establishment of a robust risk management system to identify, measure, monitor risks
- Oversee Senior Management's implementation of the Risk Appetite Statement
- Reporting on the state of risk culture in the Group
- Oversight of the strategies for capital and liquidity management as well as for all relevant risks of the Group, such as Credit, Market, Operational and Reputational Risks, to ensure they are consistent with the stated risk appetite
- Responsible for the appointment of, including overseeing and interacting with the Head of Group Risk

The RMC receives regular reporting and communication from the Head of Group Risk and other relevant functions on the Group's current risk profile, current state of the risk culture, utilization against the established risk appetite and risk limits, limit breaches as well as mitigation plans.

INTERNAL CONTROLS

The Bank's Board of Directors is responsible for the governance of risk. The Board ensures that the Senior Management maintains a sound system of risk management and internal controls to safeguard shareholder's interest and the Group's assets.

The Bank has in place a system of internal controls that safeguards the business. The Board oversees the performance of such internal control systems through the various board committees and through various control functions within the Bank.

The Bank is further also governed by the Guidelines on Internal Controls Systems (BU/G-7/2018/15) issued by AMBD on 2 January 2018.

Group Audit

The role of the Group Audit function is to provide independent, objective assurance designed to add value and improve the Group's operations.

The mission of Group Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Department helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal control processes.

The department's focus is to assist the Board and Senior Management in the effective discharge of their responsibilities by furnishing them with internal audit reports setting forth independent and objective analyses, appraisals, recommendations and pertinent comments concerning the systems, processes or activities audited.

In carrying out the above objectives, the internal auditor's work shall govern itself by adhering to the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework including the Core Principles for the Professional Practices of Internal Auditing, the Code of Ethics, the international Standards for the Professional Practice of Internal Auditing ["Standards"] and the Definition of Internal Auditing.

The Internal Audit function is also governed by the Guidelines on Internal Audit function (BU/G-3/2018/11) issued by AMBD on 2 January 2018.

Group Compliance

The Bank's Board of Directors is responsible in overseeing the management of the Group's compliance risk. At least once a year, the Board or its committee must assess if the Group is managing its compliance risks effectively.

Approved by the Board, the Group Compliance Risk Management Framework defines three lines of defense in mitigating compliance risk.

Compliance Risk Management Framework

1. The first line of defence is front-line business management under respective Management Committees who administers compliance risk, implement mitigation controls and ensure that activities are consistent with Group compliance risk management objectives.
2. The second line of defence places the Group Compliance Department responsible for covering the implementation of effective compliance risk assessment, identify emerging risk issues, incorporating risk mitigation measures and monitoring of transactions, including to guide the development and implementation of internal policies and procedures ensuring compliance with laws and regulations.

3. The third line of defence places the Internal Audit Department responsible for providing the assurance of independent reviews and assessments on the effectiveness of the compliance function.

The Group Compliance function is governed by the Guidelines on Compliance and Compliance function (BU/G-5/2018/13) issued by AMBD on 2 January 2018.

Group Risk

The Group Risk function is responsible for overseeing risk-taking activities across the Group. The responsibilities of the Group Risk includes ensuring that all relevant risks of the Group are properly identified and well-understood, measured and assessed; avoided, mitigated and/or controlled, as appropriate; monitored, and reported via a Monitoring and Assessment of Main Risks framework, covering 15 risk areas ranging from Credit Risk, Operational Risk, Treasury and Market Risk, to Strategic, Governance and Reputation Risk.

Group Risk Management Framework

The responsibility for risk management within the Group resides at all levels and adopts the principle of three lines of defense.

1. The first line of defense is provided by the business units where risks are taken in pursuit of revenue generation and all supporting functions. First-line management is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable. When conducting business activities, staff in the business units hold first-line responsibility in the proper identification, measurement, assessment, mitigation and controlling, monitoring, and reporting of risk exposures on an ongoing basis, having regard to the Group's risk appetite, and policies, procedures and controls. Ownership of risks and corresponding controls is held by the first line of defense.
2. The second line of defense is provided by independent risk management function. The risk management function is primarily responsible for overseeing the Group's risk-taking activities, undertaking risk assessments and reporting independently from the business line.
3. The third line of defense is provided by an independent and effective internal audit function, which is responsible for providing assurance on the effectiveness of the Group's Risk Management Framework, including the risk governance arrangements. It provides independent review and objective assurance on the quality and effectiveness of the Group's internal control system, the first and second lines of defense as well as strategic and business planning, compensation and decision-making processes.

The Group has established policies, processes and systems to provide assurance that the material risks which could adversely affect the achievement of the Group's strategic objectives are being recognized

and continually assessed. This assessment covers all types of material risks facing the consolidated group, which include, but not limited to:

- Credit Risk
- Market Risk
- Operational and Technology Risk
- Funding and Liquidity Risk
- Compliance Risk
- Reputation Risk

The identification and assessment of risk considers both internal and external factors that could adversely impact the Group's financial performance, operations, compliance with regulations and reputation among stakeholders.

The Group Risk Appetite Statement identifies the key risks and expresses the maximum tolerance of such risks that the Group is prepared to take in order to achieve its strategic objectives. The Group's performance against Risk Appetite limits is closely monitored and Senior Management is expected to have a strong regard to the Risk Appetite Statement in its decision-making process.

The Group Risk function is also governed by the Guidelines on Risk Management Framework (BU/G-9/2018/17) and Guidelines on Credit Risk Management (BU/G-1/2018/9) issued by AMBD on 2 January 2018.

Senior Management Committees

The following Senior Management Committees assist the CEO in the day-to-day running of the Group:

Management Committee: This committee oversees the management of the Group.

Asset and Liability Committee: This committee oversees the Asset and Liability Management, Interest rate and its hedging activities, credit risk on all customers' segments, funding, net interest margin and profit performance, liquidity management and product pricing.

Procurement Committee: This committee review and approves all group expenditure exceeding the CEO's delegation for all fixed asset investments or purchases for the Group.

Credit Committee: This committee is responsible for the day-to-day management oversight over credit risk arising from the Group's lending activities.

IT Steering Committee: This committee oversees the IT and related infrastructure strategies, IT related projects, initiatives and its progress.

Risk Management Committee: This committee is responsible for overall risk appetite, overseeing Senior Management's implementation of the Risk Appetite Statement and reporting on the state of risk culture in the Group.

Treasury and Investment Committee: This committee oversees strategies and recommendations involving investments and treasury activities and operations.

Business Continuity Management Committee: This committee provides the oversight and governance. Guidance and approval in policy setting and the strategic direction of the BCM program.

ACCESS TO INFORMATION

The directors will receive sufficient information from the Senior Management to monitor the performance of the Group. The directors also have access to the company secretary who will attend all Board and board committee meetings and facilitates communications between the directors and the Senior Management.

ETHICAL STANDARDS

- In the Group, the Group Code of Conduct & Ethical Standards guides directors and employees on their conduct at the workplace, and with stakeholders in order to maintain the highest ethical standards and culture of integrity and responsibility in their dealings.
- The Group Code of Conduct & Ethical Standards provides a guide on the expected standards, expected behavior and expected actions to line up to our promises.
- The Group Code of Conduct & Ethical Standards applies to all employees (whether permanent, daily-paid or temporary) and directors (referred as "member(s)").

Core Values of Professionalism, Integrity, Trust and Compliance

- Banking is a business based on integrity, confidentiality and mutual trust. All members have a responsibility towards building up its reputation by applying the highest ethical standards in all of their dealings.
- Members and employees must always be on their guard against circumstances that are susceptible to fraud, forgery or corruption. In order to maintain and safeguard the trust and confidence of customers and the public, it is essential that the Group be protected from involvement not only in any form of malpractice but also in any situations or activities which, though innocent, might be perceived by others to constitute malpractice.
- In keeping with the policy of maintaining the highest standards of conduct and ethics, the Group will investigate complaints of suspected fraudulent or dishonest use or misuse of its resources or property or misuse of authority by staff, board members, consultants or clients. To maintain

the highest standards of service, the Group will also investigate complaints concerning its programs and service.

Compliance

- Members should at all times, comply with the laws of Brunei Darussalam.
- Members should scrupulously comply with the laws, rules and regulations of the markets in which they operate, without impeding or distorting market operations in any way.
- When members fail to meet the established Rules and Regulations, it is the management's responsibility to take corrective action.
- The Rules and Regulations and Disciplinary Procedures set out in the Group Code of Conduct apply to all employees (whether permanent, daily-paid, temporary or contract), and where relevant, to directors, within Baiduri Bank and its subsidiaries.

Whistle-Blowing Policy

In keeping with the policy of maintaining the highest standards of conduct and ethics, the Group has a whistle-blowing policy covering complaints of suspected fraudulent or dishonest use or misuse of its resources or property by staff, board members, consultants, or clients. To maintain the highest standards of service, the Group will also investigate complaints concerning its programs and services.

Staff, board members, consultants, business associates and customers are encouraged to report suspected fraudulent or dishonest conduct or problems with services provided, pursuant to the procedures set forth by the Group. This policy supplements, and does not replace, any procedures required by law, regulation, or funding source requirements.

CAPITAL MANAGEMENT

Capital Management Policy

It is the Group's Capital Management Policy 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 recognized and the Group recognizes 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.

At present, the capital structure of the Group consists of equity of the Bank (comprising issued capital, reserve and retained earnings). Management monitors its capital based on its net worth as defined in its audited accounts as Total Equity unless otherwise defined by the Regulators.

Below is the Equity for the Bank and its Group as of 31 Dec 2018 and 31 Dec 2019.

	Bank		Group	
	2019 B\$'000	2018 B\$'000	2019 B\$'000	2018 B\$'000
Capital				
Core Capital (Tier I Capital)	394,811	374,329	496,653	475,877
Supplementary Capital (Tier II Capital)	19,631	21,174	23,955	22,752
Less: Investment in Subsidiaries	(47,949)	(47,949)	-	-
Total Capital base	366,493	347,554	520,608	498,629
Risk-Weighted amount				
Risk-Weighted amount for Credit Risk	1,570,495	1,693,901	2,212,715	2,333,188
Risk-Weighted amount for Operational Risk	265,271	250,534	324,674	308,754
Risk-Weighted amount for Market Risk	1,802	1,904	1,779	2,023
Total Risk-Weighted amount	1,837,568	1,946,339	2,539,168	2,643,965
Capital Ratios				
Core Capital (Tier I) Ratio, %	21.49%	19.23%	19.56%	18.00%
Total Capital Ratio, %	19.94%	17.86%	20.50%	18.86%

Regulations

The Group's regulator, Autoriti Monetari Brunei Darussalam (AMBD) sets and monitors capital requirements of the Group. The minimum capital adequacy ratio is 10% in line with international standards, and recommendations by the Regulators is to be comfortably higher.

To meet the regulatory requirements, the current capital policy requires the Group to have a minimum Capital Adequacy Ratio of 12%. The current Capital Adequacy Ratio is well above this minimum requirement.

Dividends Policy

Dividends for the year are generally paid and accounted for in the following year. The standard practice is for the Bank to propose the distribution of dividends in line with conservative principles.

From time to time, interim dividends on the current year and/or exceptional dividends from the accumulated retained earnings may be distributed.

In all cases, this policy strictly complies with all present and future regulations. Any change to this policy would require the approval of the Board of Directors.