

BAIDURI BANK



**CORPORATE GOVERNANCE
DISCLOSURES**

Corporate Governance

Baiduri Bank is committed to upholding good corporate governance standards and is guided by the Corporate Governance Guidelines issued by Authoriti Monetari Brunei Darussalam (AMBD) BU/G-1/2017/6 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.Francis Gerard Caze	Non-Executive and Independent
6	Mr.Bertie Cheng	Non-Executive and Independent

Board Duties

The Board's roles and responsibilities are to:

- Providing strategic direction, leadership and guidance
- Reviewing and approval 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 2018 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 2018	Board of Directors	Executive Committee	Nomination Committee	Remuneration Committee	Audit Committee	Risk Management Committee
Frequency of meetings	4	4	Min. 1	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 2.10.

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. Francis Gerard Caze (Chairman)
2	Mr. Bertie Cheng
3	Mr. Pierre Imhof

The main responsibilities of the EXCO are:

- Monitoring the Baiduri Bank 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 his 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 four 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.Francis Gerard Caze
4	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
- The review of Board succession plans for directors, in particular the Chairman and for the CEO (if appointed as director)
- The development of a process for evaluation of the performance of the Board, its Board committees and directors
- Review the training and professional development programs for the Board
- 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 (Chairman)
3	Haji Sofian bin Jani
4	Mr.Francis Gerard Caze
5	Mr.Bertie Cheng

The purpose of the AC is to provide a structured, systematic oversight of Baiduri Bank 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 four 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.Francis Gerard Caze
4	Mr.Bertie Cheng (Chairman)

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 and Senior Management including the Chief Risk Officer, the Head of Internal Audit and the Head of Compliance.
- In setting remuneration packages, the AC 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
 - o The remuneration of non-executive directors should be appropriate to the level of contribution
 - o To cover all aspects of remuneration including directors fees, salaries, allowances, bonuses etc.

Group Remuneration Policy

Baiduri Bank Group Remuneration Policy applies to the Bank and all its subsidiaries with the Group and guides the design, operation and management of our remuneration programmes. The policy sets out the principles and philosophies that we adopt to attract, to 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 Bank and paid the following year.

Risk Management Committee

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

Risk Management Committee

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

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 the 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:

- Establishment of a robust risk management system to identify, measure, monitor risks
- Review overall risk profile and compliance with risk appetite and strategy and risk framework
- Establishment of risk models for the risk measurements and management and the mitigation processes
- Responsible for the appointment of CRO

INTERNAL CONTROLS

The Bank's Board of Directors is responsible for the governance of risk. The Board ensured that the Senior Management maintains a sound system of risk management and internal controls to safeguard shareholder's interest and the Bank'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-3/2018/15) 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 adherence 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 Bank's compliance risk. At least once a year, the Board or its committee must assess if the Bank is managing its compliance risks effectively.

The Board has also approved the compliance risk management framework as follows:

Compliance Risk Management Framework

1. First line of defense – front line business management to administer risk mitigation controls.
2. Group Compliance Department – responsible for second line of defense covering effective compliance risk management, identifying risk issues and monitor to implement mitigation controls effectiveness.
3. Internal Audit Department is our third line of defense on providing independent review and assessment on the effectiveness of compliance function.

The Group Compliance function is also governed by the Guidelines on Compliance and Compliance function (BU/G-3/2018/13) issued by AMBD on 2 January 2018.

Group Risk Management

The Risk Management function monitors and assesses the Bank Group's risk through a comprehensive risk monitoring and assessment framework covering 14 risk areas ranging from Credit Risk, Treasury and Market risk to Strategic, Governance and Reputation Risk.

The Group Risk Appetite Statement defines, monitors and controls the major risks of the Group. The Risk Monitoring and Assessment framework provides an assessment of overall risks levels.

The Group Risk function is also governed by the Guidelines on Risk Management Framework (BU/G-3/2018/17) 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 Bank:

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.

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 Bank. 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 Baiduri Bank Group, our 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 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, BBG will investigate of 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, BBG 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, Baiduri Bank Group (BBG) 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, BBG 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 below. 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). The 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 2017 and 31 Dec 2018.

	Bank		Group	
	2018 B\$'000	2017 B\$'000	2018 B\$'000	2017 B\$'000
Capital				
Core Capital (Tier I Capital)	374,329	352,504	475,877	471,568
Supplementary Capital (Tier II Capital)	21,174	6,730	22,752	9,708
Less: Investment in Subsidiaries	(47,949)	(27,949)	-	-
Total Capital base	347,554	331,285	498,629	481,276
Risk-weighted amount				
Risk-Weighted amount for Credit Risk	1,693,901	1,484,501	2,333,188	2,180,139
Risk-Weighted amount for Operational and Market Risk	252,438	221,332	310,777	298,163
Total Risk-weighted amount	1,946,339	1,705,833	2,643,965	2,478,302
Capital Ratios				
Core Capital (Tier I) Ratio, %	19.23%	20.66%	18.00%	19.03%
Total Capital Ratio, %	17.86%	19.42%	18.86%	19.42%

Regulations

The Group's regulator, Authoriti 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.