United Overseas Bank Limited
(Incorporated in Singapore)
Brunei Darussalam Branch
(Registered in Brunei Darussalam as a Company incorporated outside Brunei Darussalam)

Pillar 3 Public Disclosures
For the year ended 31 December 2019

CERTIFICATION

We, the undersigned, being the Country Manager and the Finance Manager of United Overseas Bank Limited (Brunei Darussalam Branch) do hereby state that, in our opinion, Pillar 3 Public Disclosure notes are prepared in accordance to the requirements of Autoriti Monetari Brunei Darussalam so as to give correct and complete public disclosure.

Abdul Razak Abdul Malek
Country Manager
Date: 30th March 2020

Alester Yong Khong Lok
Finance Manager
Date: 30th March 2020

1 INTRODUCTION

United Overseas Bank Limited, incorporated in Singapore has the registered office of its Brunei Darussalam Branch at Unit 10 & 11, Bangunan D'Amin Jaya Complex, Kg Kiarong, Bandar Seri Begawan - BE1318, Brunei Darussalam. The Branch is a segment of United Overseas Bank Limited and is not a separately incorporated legal entity.

The main business activity of UOB Brunei Branch is credit lending. Other activities include money market activities, trade finance and remittance services.

UOB Brunei Branch is headed by The Country Manager who is overall in charge of business development and operations of the Branch and directly reporting to Head Of Group Strategy & International Management who has geographical oversight on the strategic development and financial performance of overseas branches and subsidiaries. The key functional units of the branch have matrix reporting to the global functional heads such as Group Compliance and Group Wholesale Banking and Group Wholesale Operations Standardization in Head office.

The Country Manager is supported by the following direct reports:-

1. Head of Operation
2. Head of Business Unit
3. Head of Finance & Administration
4. Head of Compliance

UOB Brunei Branch was established in 2001 with a full banking license. In 2015, Branch's business model was transformed to focus on providing commercial and corporate banking services. The Branch is primarily involved in the business of banking in all aspects.

The following disclosures are made pursuant to Pillar 3- Public Disclosure Requirements.

This disclosure should be read in conjunction with the Branch's Financial Statements for the year ended 31 December 2019.

2 CAPITAL MANAGEMENT

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

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

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

Head office committees oversee the Branch's capital planning and assessment process. Any capital management plans, the contingency capital plans, and any capital management actions are submitted to Head Office senior management team and/or board for approval.

Head office is the primary equity capital provider to the Branch, and this is done via Head Office's own retained earnings and capital issuance. The Branch manages its own capital within the context of the ICAAP and Head Office capital management plan as well as any local capital regulations.

2 CAPITAL MANAGEMENT (continued)

Capital adequacy ratios (CAR)

The Branch computes the capital adequacy ratios using the Guidelines issued by Autoriti Monetari Brunei Darussalam:

	31-Dec-2019 B$'000	31-Dec-2018 B$'000
Capital		
Core Capital (Tier 1 Capital)	**93,587**	89,367
Supplementary Capital (Tier II Capital)	**-**	-
Adjustment to Tier I and Tier II Capital	**532**	460
Total Capital Base	**94,119**	89,827
Total Risk-weighted Amount for:		
Credit Risk	**175,408**	146,182
Operational Risk	**15,154**	15,252
Market Risk	**35,882**	6,076
Total Risk-Weighted Amount	**226,444**	167,510

	31-Dec-2019 %	31-Dec-2018 %
Capital adequacy ratios		
Core capital (Tier 1) ratio	**41.33**	53.35
Total capital ratio	**41.56**	53.62

Capital is divided into two tiers:

1. Eligible Tier 1 Capital comprising the following:-
   - Assigned Capital;
   - Statutory Reserve Funds; and
   - Published Retained Profits / (accumulated losses).

2. Tier 2 Capital comprising the following:-
   - Revaluation Reserves;
   - General Provisions;
   - Hybrid Capital Instruments;
   - Minority Interest Arising from Preference Shares; and
   - Approved Subordinated Term Debt.

3 SIGNIFICANT RISK ASSOCIATED WITH THE BRANCH'S OPERATIONS

The main financial risks that the Branch is exposed to and how they are being managed are set out below:

(i) Credit risk

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

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

(i) Credit risk (continued)

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

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

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

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

As at 31-Dec-2019	**Maximum credit exposure B$'000**	**Financial effect/ Collateralised B$'000**	**Unsecured portion of credit exposure B$'000**
Credit exposure for On-Statement of Financial Position financial assets:			
Cash and short term funds	1,326	-	1,326
Balances with Autoriti Monetari Brunei Darussalam	24,712	-	24,712
Government Sukuk	12,452	-	12,452
Loans and advances	84,050	(60,674)	23,376
Group balances receivable	172,976	-	172,976
Other assets	2,208	-	2,208
Credit exposure for Off-Statement of Financial Position financial assets:			
Letters of credit	4,466	(2,562)	1,904
Guarantees, bonds	40,815	(3,147)	37,668
Shipping guarantees	156	(156)	-
Acceptances	308	-	308
Others	492	-	492
Total maximum credit exposure	343,961	(66,539)	277,422

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

(i) Credit risk (continued)

As at 31-Dec-2018	**Maximum credit exposure B$'000**	**Financial effect/ Collateralised B$'000**	**Unsecured portion of credit exposure B$'000**
Credit exposure for On-Statement of Financial Position financial assets:			
Cash and short term funds	1,281	-	1,281
Balances with Autoriti Monetari Brunei Darussalam	15,642	-	15,642
Government Sukuk	22,388	-	22,388
Loans and advances	87,913	(66,520)	21,393
Group balances receivable	134,342	-	134,342
Other assets	586	-	586
Credit exposure for Off-Statement of Financial Position financial assets:			
Letters of credit	4,138	(3,117)	1,021
Guarantees, bonds	15,189	(2,999)	12,190
Shipping guarantees	548	(13)	535
Acceptances	107	(41)	66
Others	425	-	425
Total maximum credit exposure	282,559	(72,690)	209,869

As a fundamental credit principle, the Branch does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt service ability.

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically and covers a 100% of the credit risk associated with the respective financial asset.

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

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

(i) Credit risk (continued)

As at 31-Dec-2019	Loans and advances to customers B$'000	Stage 1 B$'000	Stage 2 B$'000	Stage 3 B$'000
By industry sector:				
Agricultural	4,347	4,307	40	-
Manufacturing	3,572	3,441	131	-
Transportation	190	182	8	-
Infrastructure	475	475	-	-
Traders	34,759	34,034	725	-
Professional services	9,156	8,862	294	-
Constructions and Property Financing	30,035	26,226	1,776	2,033
Tourism	487	467	20	-
Telecommunication and Information Technology	1,029	1,026	3	-
	84,050	79,020	2,997	2,033

As at 31-Dec-2018	Loans and advances to customers B$'000	Stage 1 B$'000	Stage 2 B$'000	Stage 3 B$'000
By industry sector:				
Agricultural	4,836	4,755	81	-
Manufacturing	4,037	3,677	360	-
Transportation	208	187	21	-
Infrastructure	227	-	-	227
Traders	35,255	33,122	2,129	4
Professional services	8,828	7,759	752	317
Constructions and Property Financing	31,410	27,965	2,064	1,381
Tourism	595	279	316	-
Telecommunication and Information Technology	2,517	2,444	73	-
	87,913	80,188	5,796	1,929

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

(i) Credit risk (continued)

Credit exposure analysed by geography

	In Brunei B$'000	Outside Brunei B$'000	Total B$'000
As at 31-Dec-2019			
Cash and short-term funds	1,134	192	1,326
Deposits and placements with financial institutions	-	172,976	172,976
Loans, advances and financing	84,050	-	84,050
Other assets	2,208	-	2,208
Balances with Autoriti Monetari Brunei Darussalam and Government Sukuk	37,164	-	37,164
	124,556	173,168	297,724
Commitments and contingencies	98,819	100	98,919

	In Brunei B$'000	Outside Brunei B$'000	Total B$'000
As at 31-Dec-2018			
Cash and short-term funds	895	386	1,281
Deposits and placements with financial institutions	-	134,342	134,342
Loans, advances and financing	87,913	-	87,913
Other assets	586	-	586
Balances with Autoriti Monetari Brunei Darussalam and Government Sukuk	38,030	-	38,030
	127,424	134,728	262,152
Commitments and contingencies	80,092	3,404	83,496

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

(i) Credit risk (continued)

The Credit Exposures by Remaining Contractual Maturities of the Branch for the year ended 31 December 2019 were as follows:

	Corporates (including SMEs) B$'000
< 3 Months	75,288
3 – 6 Months	8,626
6 – 12 Months	95
1 – 3 Years	41
3- 5 Years	-
> 5 years	-
Grand Total	84,050

The Credit Exposures by Remaining Contractual Maturities of the Branch for the financial year ended 31 December 2018 were as follows:

	Corporates (including SMEs) B$'000
< 3 Months	77,596
3 – 6 Months	8,171
6 – 12 Months	125
1 – 3 Years	264
3- 5 Years	-
> 5 years	1,757
Grand Total	87,913

Past Due and Impaired Loans analysed by Industry:

	31-Dec-2019		**30-Dec-2018**	
	Past Due but not impaired B$'000	**Impaired Loans** B$'000	**Past Due but not impaired B$'000**	**Impaired Loans** B$'000
Manufacturing	**436**	-	**399**	-
Construction	**946**	4,893	**711**	4,155
Infrastructure	**-**	-	**-**	1,342
Wholesale, Retail Trade, Restaurants and Hotels	**-**	222	**2,288**	235
Transport, Storage and Communication	**-**	-	**-**	-
Finance Insurance and Business Services	**-**	1,001	**282**	1,002
Real Estate Community, Social and Personal Services	**-**	-	**-**	-
	1,382	6,116	**3,680**	6,734

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

(i) Credit risk (continued)

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

	31-Dec-2019							
	Neither past due nor impaired B$'000	**Past due but not Impaired B$'000**	**Non-performing B$'000**	**Interest Receivables B$'000**	**Stage 1 B$'000**	**Stage 2 B$'000**	**Stage 3 B$'000**	**Net total B$'000**
Current	80,812	-	-	298	(395)	(80)	-	80,635
Within 90 days	-	1,382	-	5	(4)	(1)	-	1,382
Over 90 to 180 days	-	-	948	5	-	-	(95)	858
Over 180 days	-	-	5,168	703	-	-	(4,696)	1,175
	80,812	1,382	6,116	1,011	(399)	(81)	(4,791)	84,050

	31-Dec-2018							
	Neither past due nor impaired B$'000	**Past due but not Impaired B$'000**	**Non-performing B$'000**	**Interest Receivables B$'000**	**Stage 1 B$'000**	**Stage 2 B$'000**	**Stage 3 B$'000**	**Net total B$'000**
Current	82,413	-	-	345	(355)	(90)	-	82,313
Within 90 days	-	3,680	-	7	(11)	(4)	-	3,672
Over 90 to 180 days	-	-	235	-	-	-	(232)	3
Over 180 days	-	-	6,499	530	-	-	(5,104)	1,925
	82,413	3,680	6,734	882	(366)	(94)	(5,336)	87,913

Credit Risk Mitigation

Potential credit losses are mitigated using a variety of instruments such as collateral and guarantees. As a fundamental credit principle, the Branch generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed and the value of the collateral is monitored periodically.

The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Branch are cash, marketable securities, real estate, equipment, inventory and receivables. Collateral taken by the bank has to fulfil certain eligibility criteria (such as legal certainty across relevant jurisdictions) in order to be Internal Ratings-Based (IRB) purposes.

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

(i) Credit risk (continued)

In extending credit facilities to SMEs, personal guarantees are also often taken as a form of moral support to ensure moral commitment from the principal shareholders and directors.

For IRB purposes, the Branch does not recognise personal guarantees as an eligible credit risk protection. Corporate guarantees are often obtained when the borrower's credit worthiness is not sufficient to justify an extension of credit. To recognise the effects of guarantees under the Foundation IRB approach, the Branch adopts the Probability of Default substitution approach whereby the Probability of Default of an eligible guarantor of an exposure will be used for calculating the capital requirement.

The following tables presented the total exposures which are covered by eligible credit risk mitigants of the Branch for the year ended 31 December 2019.

Exposure Class	**Exposure** B$'000	**Exposures covered by Guarantees/ Credit Derivatives** B$'000	**Exposures covered by Eligible Financial Collateral** B$'000	**Exposures covered by Other Eligible Collateral** B$'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	38,490	-	-	-
Group Balance Receivables	172,976	-	-	-
Corporates	82,017	23,375	23,340	35,302
Other Assets	2,397	-	-	-
Defaulted Exposures	2,033	-	-	2,033
Total On-Balance Sheet Exposures	297,913	23,375	23,340	37,335
Off-Balance Sheet Exposures				
Off-Balance Sheet Exposures other than Over–the-Counter Derivatives or Credit Derivatives	46,237	5,270	5,211	654
Total Off-Balance Sheet Exposures	46,237	5,270	5,211	654
Total On and Off-Balance Sheet Exposures	344,150	28,645	28,551	37,989

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

(i) Credit risk (continued)

The following tables presented the total exposures which are covered by eligible credit risk mitigants of the Branch for the financial year ended 31 December 2018.

Exposure Class	**Exposure B$'000**	**Exposures covered by Guarantees/ Credit Derivatives B$'000**	**Exposures covered by Eligible Financial Collateral B$'000**	**Exposures covered by Other Eligible Collateral B$'000**
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	39,311	-	-	-
Group Balance Receivables	134,342	-	-	-
Corporates	81,179	16,049	23,869	41,261
Other Assets	775	-	-	-
Defaulted Exposures	6,734	5,344	-	1,390
Total On-Balance Sheet Exposures	262,341	21,393	23,869	42,651
Off-Balance Sheet Exposures				
Off-Balance Sheet Exposures other than Over-the-Counter Derivatives or Credit Derivatives	80,092	7,660	4,818	7,504
Total Off-Balance Sheet Exposures	80,092	7,660	4,818	7,504
Total On and Off-Balance Sheet Exposures	342,433	29,053	28,687	50,155

Counterparty Credit Risk

Unlike normal lending risk where the notional at risk can be determined with a high degree of certainty during the contractual period, counterparty credit risk exposure fluctuates with market variables. Counterparty credit risk is measured as the sum of current mark- to market plus appropriate add-on factor for Potential Future Exposure (PFE). The PFE factor is an estimate of the maximum credit exposure over the remaining life of the foreign exchange (FX)/derivatives transactions and is used for limit setting and interval risk management.

The Branch also has established policies and procedures to manage wrong-way risk, i.e. where the counterparty credit exposure is correlated positively with its default risk. Transactions that exhibit such characteristics are identified and reported to senior management on a regular basis. In addition, transactions with specific wrong-way risk are generally rejected at the underwriting stage.

The off - balance sheet exposures and their related counterparty credit risk of the loan and advances for the year ended 31 December 2019 were as follows:

			B$'000
Description	**Principal Amount**	**Positive Fair Value of Derivatives Contracts**	**Credit Equivalent Amount**
Transactions related contingent items	40,815	40,815	20,407
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	51,515	51,515	25,757
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-	-	-
Total	**92,330**	**92,330**	**46,164**

The off-balance sheet exposures and their related counterparty credit risk of the loan and advances for the financial year ended 31 December 2018 were as follows:

			B$'000
Description	**Principal Amount**	**Positive Fair Value of Derivatives Contracts**	**Credit Equivalent Amount**
Transactions related contingent items	15,189	15,189	7,594
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	25,561	25,561	12,780
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	314	314	63
Total	**41,064**	**41,064**	**20,437**

Market risk

Market Risk is the risk of financial loss where the value of the Branch's assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market Liquidity Risk is the risk of financial loss caused by inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.

Interest rate risk

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

The economic value of equity (“EVE”) sensitivity at 100 and 200 basis points parallel interest rate shocks. This is computed on the banking book for major currencies. EVE is the present value of assets less present value of liabilities of the Branch. The reported figures are based on the worst case of an upward and downward parallel shift in the yield curve. The repricing profile of loans and deposits that do not have maturity dates is generally based on the earliest possible repricing dates, taking into account the notice period to be served to the customers. Loan prepayment is generally estimated based on past statistics and trends where possible and material.