UNITED OVERSEAS BANK LIMITED, BRUNEI BRANCH

PILLAR 3 DISCLOSURES
December 2021

Contents

Notes:
1 The pillar 3 disclosure report is presented in Brunei Dollars (B$'000).
2 Certain figures in this report may not add up to the respective totals due to rounding.

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 Brunei Darussalam Central Bank so as to give correct and complete public disclosure.

Howard Low Boon Keng
Country Manager
Date: 21 April 2022

Hajah Norsinah Haji Kamis
Head of Finance & Administration
Date: 21 April 2021

1 INTRODUCTION

Pillar 3 Disclosure Report (“The Report”) is prepared in accordance with the Brunei Darussalam Central Bank ("BDCB") Notice to Banks No. BU/N-1/2021/68 on Pillar 3 – Public Disclosure Requirements issued on 02/04/2021

In accordance with the Notice, the medium of disclosure is a standalone document (“standalone Pillar 3 report”).

This disclosure should be read in conjunction with the Branch’s Financial Statements for the year ended 31 December 2021.

2 OVERVIEW OF KEY PRUDENTIAL METRICS AND RWA

2.1 Key Metrics

		(a)	(b)	(c)	(d)	(e)
		Dec 2021	**Sep 2021**	**Jun 2021**	**Mar 2021**	**Dec 2020**
	Available Capital					
1	Tier 1	**99,830**	**98,737**	**98,112**	**97,581**	**96,928**
2	Total Capital	100,403	99,701	98.928	98,328	97,722
	Risk-Weighted Assets					
3	Total Risk Weighted Asset (RWA)	151,057	150,955	156,138	197,412	197,194
	Risk based Capital Ratio as a percentage of RWA					
4	**Tier 1**	**66.09%**	**66.41%**	**62.84%**	**49.43%**	**49.15%**
5	**Total Capital Ratio**	**66.47%**	**66.05%**	**63.36%**	**49.81%**	**49.56%**

There has been a major growth in both the Tier 1 and Total Capital Ratio as compared from the 4th Quarter 2020 and 1st Quarter 2021. The contributing factors are from the following:

1) Risk-Weighted Assets for Credit Risk – Decrease in Performance Guarantee issued. Q1 2021 total PG amount B$40,127K and Q4 2021Total PG B$8,140K
2) Risk-Weighted Assets for Market Risk – Decrease in Net Long (Short) position in Foreign Currency which mainly from USD. The drop is from USD/BND33,433K in Q1 2021 to USD/BND1,350K in Q4 2021

2.2 Overview of Risk Weighted Assets (RWA)

		(a)	(b)	(c)
		Risk-Weighted Assets		**Minimum Capital Requirement**
		Dec 2021	**Sep 2021**	**Dec 2021**
1	Credit Risk (Standardised)	136,372	136,012	13,637
2	Market Risk IStandardised)	13,327	14,353	1,333
3	Operational Risk (Basic Indicator Approach)	1,357	590	136
4	**Total**	151,057	150,955	15,106

3. **COMPOSITION OF CAPITAL**

3.1 Composition of Regulatory

		(a) Amounts
	Tier 1 Capital: Instruments and Reserves	99,830
1	Paid-up Ordinary Shares/Assigned Capital	30,000
2	Non-Cumulative, Non-Redeemable Preference Shares	
3	Share Premium	
4	Statutory Reserve Fund	33,236
5	Published Retained Profits/(Accumulated Losses)	36,594
6	General Reserve	
7	Fair Value Reserves	
8	**Tier 1 capital before regulatory adjustments**	
	Tier 1 Capital : regulatory adjustments	-
9	Reciprocal cross-holdings of ordinary shares (as required by BDCB)	
10	Goodwill	
11	Other Intangible assets	
12	Advances/financing granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	
13	Minority Interests held by 3rd party in Financial Subsidiary	
14	**Total Regulatory adjustments to Tier 1 Capital**	
15	**Tier 1 capital**	
	Tier 2 capital : Instruments and provisions	573
16	General credit loss Reserves (capped at 1.2% of Credit Risk)	573
17	*Hybrid (debt/equity) Capital Instrument*	
18	Approved subordinated Term Debt (Capped at 50% of Core Capital Element)	-
19	**Tier 2 capital before regulatory adjustments**	
	Tier 2 capital : regulatory adjustment	
20	Reciprocal Crossholdings of Tier 2 Capital Instruments	
21	Minority Interests Arising From Holdings of Tier 2 Instruments in Financial Subsidiary by Third Parties	
22	**Total regulatory adjustments to Tier 2 Capital**	
23	**Tier 2 Capital (T2)**	**573**
24	**Allowable Supplementary Capital (Tier 2 Capital)**	**573**
25	**Sub-Total of Tier 1 and Tier 2 Capital**	**100,403**
26	**Deductions/Adjustments 3 to total amount of Tier 1 and Tier 2 capital**	-
27	Significant Investments in Banking, Securities and other Financial Entities	-
28	Significant Investments in Insurance Entities & Subsidiary	-
29	Significant Investments in Commercial Entities	-
30	Securitisation Exposures (Rated B+ or Below & Unrated)	-
31	Resecuritisation Exposure (Rated B+ or Below & Unrated)	-
32	**Total Regulatory Capital (TC = T1 + T2)**	**100,403**
33	**Total risk-weighted assets**	**151,057**
	Capital Ratio	
34	Tier 1 (as a percentage of risk weighted assets)	66.09%
35	Total Capital (as a percentage of risk-weighted assets)	66.47%

4. **LINKAGES BETWEEN FINANCIAL STATEMENT AND REGULATORY EXPOSURES**

4.1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	**c**	**d**	**e**	**f**	**g**
			Carrying values of items:				
	Carrying Values as reported in published financial statement	**Carrying values under scope of regulatory consolidation**	**Subject to credit risk framework**	**Subject to counterparty credit risk framework**	**Subject to securitisation framework**	**Subject to market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Assets							
Cash and balances at central banks	31,005		83	-	-	-	30,922
Items in the course of collection from other banks	160,818		32,207	-	-	-	128,611
Trading portfolio assets	-		-	-	-	-	-
Financial assets designated at fair value	1,671		1,671	-	-	-	-
Derivatives financial instruments	-		-	-	-	-	-
Loans and advances to banks	-		-	-	-	-	-
Loans and advances to customers	93,329		99,704	-	-	-	(6,375)
Reverse repurchase agreement	-		-	-	-	-	-
And other similar secured lending	-		-	-	-	-	-
Available for sale financial	-		-	-	-	-	-
Other Assets	938		722	-	-	-	216
Total Assets	**287,761**		134,388	-	-	-	153,374
Liabilities							
Deposit from Banks	3,668		-	-	-	-	3,668
Items in the course of collection due to other banks	4.096		-	-	-	-	-
Customer accounts	178,256		-	-	-	-	178,256

Repurchase agreements and other similar borrowings	-	-	-	-	-	-
Trading portfolio liabilities	-	-	-	-	-	-
Financial liabilities designated at fair value	-	-	-	-	-	-
Derivatives financial instruments	-	-	-	-	-	-
Other Liabilities	101,741	1,984	4,442	-	1,357	93,958
Total Liabilities	287,761	1,984	4,442		1,357	279,978

4.2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
			Items subject to :			
		Total	**Credit Risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
1	**Assets carrying value amount under scope of regulatory consolidation (as per template LI1)**	134,388	134,388	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	7,784	1,984	-	4,442	1,357
3	Total net amount under regulatory scope of consolidation (Row 1 – Row 2)	142,171	136,372	-	4,442	1,357
4	Off balance sheet amounts	69,424				
5	Differences in valuation	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	Exposure amount considered for regulatory purposes	142,171	136,372		4,442	1,357

5. OVERVIEW OF RISK MANAGEMENT

<u>Risk Management Framework, Credit Risk Management and Internal Audit Function</u>

Kindly note that Brunei branch is one of the overseas branches of UOB Singapore established in Brunei. Hence, we are adopting the risk Management Framework and Credit Risk Management from Head Office.

With respect to Internal Audit Function, Brunei Branch does not have an internal audit department locally but Head Office will assign internal auditors to perform audit check on annual basis depending on the audit rating of the branch.

As required under the guidelines issued by BDCB, Brunei branch is required to provide full disclosure of the above risk framework and functions. The full disclosure is available in the annual return published by Head Office.

In view of the above, Brunei branch will provide a link to Head office's website for public to access the full disclosure of the required framework and function under Corporate Governance.

INTERNAL CONTROL

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 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 at 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

MANAGEMENT COMMITTEE

The Management Committee of UOB Brunei ("MC") is a committee of management members appointed by the Country Manager to establish business and budget plans, to monitor the Branch's financial and operating performance and to facilitate branch-wide coordination, communication and teamwork as well as risk management. MC meetings are held monthly or as and when their urgent matters that require attention. MC details are provided below.

Composition	Roles & Responsibilities
Members ▪ Country Manager, Chairman ▪ Head of Operations ▪ Head of Finance & Admin ▪ Head of Compliance ▪ Head of Credit Admin ▪ Head of Business Unit The MC may choose to invite any other officer/s as either permanent or	▪ Establish strategies, policies and plans for conducting business and managing the Branch's operations; ▪ Review and monitor financial and operating performance of the Branch against approved strategies and plans; ▪ Allocate resources, including capital that commensurate with risk adjusted returns and undertake active capital management; ▪ Facilitate branch-wide coordination, communication and teamwork; ▪ Decide on significant business proposals and issues; ▪ Provide a forum for sharing key decisions and directions as well as key market developments;

Composition	Roles & Responsibilities
temporary invitees for obtaining expert views or experienced counsel.	▪ Review and monitor credit matters (including the credit portfolio), operational risk and branch operations issues, compliance and regulatory related matters; ▪ To discuss and monitor all ALCO-related matters: − Engage Group ALCO whenever applicable: refresh existing parameters; frameworks, policies and risk measurement methodologies and model assumptions; − Limit excesses and triggers and endorse for Group ALCO approval if applicable; − Establish funding strategies, target balance sheet mix and pricing strategies for deposits and loans, including approval of loan and deposit rates; − Monitor, assess and review key economic and market updates, market risk, banking book interest rate and liquidity risk profiles and exposures, vulnerabilities, P&L incidences, material issues and major transactions; − Monitor asset / liability distributions and maturities; − Discuss market risk, banking book interest rate risk and liquidity risk, including the monitoring of limits utilization; ▪ Communicate and disseminate any HO directives which impact the Branch for all in the management team to note and apply; ▪ Oversee implementation of new and / or updates in policies and procedures.

COMPLIANCE FUNCTION

The Compliance Function of UOB Brunei Branch is an independent function which assists the Management in ensuring that all activities of Brunei Branch are conducted in conformity with laws and regulations.

The Country Manager is responsible for the oversight and implementation of the Compliance Risk Management Framework that contains the basic principles and explains the main processes by which compliance risks are to be identified and managed in UOB Brunei Branch including:-

- Fostering awareness of the major aspects of UOB Brunei’s Compliance risks that should be explicitly managed;
- Ensuring that the all Compliance manual and other relevant policies and guidelines are observed
- Ensuring that appropriate remedial or disciplinary action is taken if breaches are identified; and
- Ensuring that UOB Brunei Branch can rely on a permanent and effective Country Compliance function that is sufficiently resourced to carry out its role.

Reporting Structure of Compliance Function

The Compliance department has a solid and direct functional reporting line to the Group Head of Compliance, and a reporting line to the Country Manager

The Group Head of Compliance has a direct reporting line to the Group Chief Executive Officer and has an overall responsibility for identifying, managing and coordinating of regulatory compliance risk & providing oversight and functional compliance leadership to manage the compliance risk for the Group. The Group Head of Compliance also ensures that the Board of Directors and Senior Management are informed of significant compliance issues and plans for resolution.

The Country Manager must ensure the independence of the Compliance function and be guided by the relevant guidelines and policies.

- Risk Management Framework

The risk management framework is integral to the operations of UOB Ltd. Risks are proactively managed while the framework is flexible to incorporate any new business that the bank may undertake.

Management of risks in UOB Ltd, of which the Branch is a part of and is covered, is executed through an organization control structure which provides three "lines-of-defense" as follows:

- First line of defense – The Risk Owner: The Risk Owner: The business and business support functions own and have primary responsibility for implementing and executing effective controls for the management of risks arising from their business activities. This involves day-to-day risk management in accordance with approved risk policies, appetite, limits and controls. Internal controls are embedded into the business development, front-office, systems and operational processes. This includes adequate managerial and supervisory controls to ensure compliance and to highlight control breakdowns, inadequacy of processes and unexpected events.

- Second line of defense – Risk Oversight: The risk and control oversight functions (Group Credit & Risk Management and Group Compliance), and the Chief Risk Officer provide the second line of defense. They set the risk frameworks, policies, appetite and limits within which the business functions must operate. The risk and control functions are also responsible for the independent review and monitoring of the Group risk profile on an enterprise-wide basis and reporting of significant vulnerabilities and risk issues to the respective senior management committees.

- Third line of defense – Independent audit: The Group's internal and external auditors conduct risk-based audits covering all aspects of both the first and second lines of defense to provide independent assurance to the CEO, Audit Committee and the Board, on the effectiveness of the risk management and control structure, policies, frameworks, systems and processes.

UOB Brunei is guided by the internal control regulations and regulatory notices. The Branch has in place an internal control process, appropriate to its size, risk profile and complexity of operations, which provides assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements, and internal policies and procedures. This process includes:

- Management oversight and control
- Risk recognition and assessment
- Control activities
- Information and communication
- Monitoring activities and correcting deficiencies

UOB Brunei adopts the frameworks of HO for the identification, measurement, monitoring and control of risks. The framework is governed by the appropriate committees in HO and in line with the policy for overseas branches.

UOB Brunei manages and monitors the major risks arising out of its day-to-day operations, including credit risk, market risk, operational risk, liquidity risk, interest rate risk and compliance risk.

As a branch of UOB Ltd, HO has direct oversight on UOB Brunei which is covered by Group business / support / compliance / risk / audit functions. GIM provides management oversight to enable sustainable development and strong governance of overseas branches and supports UOB Ltd in the corporate and strategic planning. The local business and support functions report to the Country Manager and their respective HO functions.

UOB Brunei has a Management Committee which meets monthly or as and when necessary to discuss matters involving the branch including the results of reviews conducted.

Stress Testing

In order to meet its objective of maintaining a strong financial position during various economic environments, UOB Brunei incorporates downturns and other external factors in its assessment of overall capital adequacy. The primary tool used to accomplish this is stress testing which is part of the ongoing risk management process. Stress testing facilitates the examination of alternative scenarios and provides important information about possible losses and migration across ratings grades and segments during downturns. UOB Brunei performs stress tests on the Internal View Capital components in order to understand the impact of economic cycles on its capital position.

Stress testing has to be an integral part of the bank's risk management system to be really effective and aim at measuring the vulnerability of the bank to unlikely but plausible changes in the variables to which the bank is subjected. The Branch has a responsibility to implement a process it believes is appropriate for the level of risk in its operations. It has made stress events an inclusive part of the exercise in order to maintain capital to support the risks to which the business is exposed.

Stress testing is intended to provide a diagnostic tool to understand the risk profile of the Branch and at the same time use the quantitative analysis of the stress testing exercise to build a robust internal capital assessment model.

6. LIQUIDITY RISK

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities at a point of time. It is the "potential for loss" to an institution arising from either its inability to meet its obligations or to fund assets as they fall due without incurring unacceptable cost or losses.

Liquidity risk is consequential risk due to the strategies followed in all other types of risk.

Liquidity risk primarily arises due to the maturity mismatch associated with assets and liabilities of the bank. The structural and dynamic liquidity reports are used to assess continuously the liquid position and mismatches. The cost of such liquidity risk would be in terms of either raising fresh liabilities at higher cost or liquidating its assets at a higher discount rate. The raising of funds at a short notice in the interbank market depends upon the credit rating of the bank and at the same time, the ease at which treasury assets can be liquidated in the market is a function of the quality of those assets.

➢ Liquidity Management

Liquidity risk is managed along the following lines:

- There is an asset liability management ("ALM") function in place, both at the group (Group ALCO) and local (MC) level. The ALM function involves planning, directing and controlling the flow, level, mix, cost and yield of funds of the bank with a view to achieving the financial goals and controlling financial risks. The following are some of the business issues addressed by the UOB Brunei MC:
  - Product pricing for deposits and loans;
  - Economic review, overview of money and foreign exchange markets;
  - Maintain oversight on effectiveness of risk management on structural interest rate and liquidity risk;
  - Assets and liabilities review.

- Liquidity risk limits and trigger are in place. These include net cumulative outflow limits ("NCO") in the pre-defined buckets (overnight, 7 days, one month), liquidity coverage ratio and book size which are continuously monitored on a daily basis.
- To promote short-term resilience of a bank's liquidity risk profile, a bank is required to maintain, over a thirty (30)-calendar horizon, an adequate level of unencumbered high-quality liquid assets ("HQLA") that consist of cash or assets that can be converted into cash at little or no loss of value in the private markets, to offset the net cash outflows it could encounter under a liquidity stress scenario, i.e., liquidity coverage ratio. At a minimum, the stock of liquid assets should enable the bank to withstand liquidity shocks that last thirty (30) calendar days, which would give time for corrective actions to be taken by the bank management and / or the Regulator.

- To promote long-term resilience against liquidity risk, a bank is required to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities, i.e., net stable funding ratio. Complementing the LCR, the NSFR seeks to limit overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

➢ Measurement

UOB Brunei's operations are well capitalized and the leverage from external funding in the balance sheet is low. The size of the balance sheet is broadly stable. A large part of the funding is sourced from HO in the form of Tier 1 capital and this is stable in nature.

A significant portion of the capital has also not yet been deployed to loans and other credits and remains with the BDCB in the form reserves, overnight/term deposits and reverse repos. Consequently, the LCR and NSFR are significantly high.

Liquidity Coverage Ratio	**121%**
HQLA	20,062
LCR Net Outflows	16,607
Net Stable Funding Ratio	**171%**
Available Stable Funding	166,882
Required Stable Funding	97,648

Given the above, the Branch is of the view that additional capital is not required to mitigate liquidity risk. Being non-capital based risk, liquidity risk should not be covered by capital but that appropriate processes should be in place in order to avoid a shortfall in liquidity

7. **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.

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.

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.

The rest of this page is intentionally left blank

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

7.1 Credit Quality of Assets

		a	b	c	d		e
		Gross Carrying Values of			**Of Which: ECL accounting provisions for credit losses on SA exposures**		**Net values (a+b-c)**
		Defaulted Exposures	**Non-Defaulted Exposures**	**Allowances/ Impairments**	**Of which: Specific Allowances**	**Of which: General Allowances**	
1	Loans	5,277	91,935	3,883	582	3,301	93,329
2	Debts Securities (SUKUK)	-	10,996	54	54	-	10.942
3	Off-balance Sheet Exposures	-	69,424	-	-	-	69,424
4	**Total**	5,277	172,355	3,937	636	3,301	173,695

Definition of Defaults/Delinquent accounts

- The principal and/or the interest or both are past due for more than 90 days
- Inability of the borrower to meet contractual repayment terms of the credit facility

We adopt an holistic approach towards assessing credit risk and ensure that managing credit risk is part of an integrated approach to enterprise risk management. Integral to the management of credit risk is a framework that clearly defines policies and processes relating to the identification, measurement and management of credit risk. We continually monitor the operating environment to identify emerging risks and to formulate appropriate mitigating actions

Delinquency Monitoring

We monitor closely the delinquency of borrowing accounts, a key indicator of credit quality. An account is considered delinquent when payment has not been received by the payment due date. All delinquent accounts, including revolving credit facilities (such as an overdraft) with limit excesses, are closely monitored and managed through a disciplined process by officers from business units and the risk management function. Where appropriate, such accounts are also subject to more frequent credit reviews.

7.2 Changes in stock of defaulted loans and debts security

		a
1	Defaulted loans and debt securities at end of previous reporting period	5,296
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amount written-off	-
5	Other changes	(18)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	5,277

7.3 Additional disclosure related to the credit quality of assets

Past Due and Impaired Loans analysed by Industry

	Past Due but not impaired	**Impaired Loans**
Manufacturing	**-**	-
Construction	**2,925**	5,038
Infrastructure	**-**	-
Wholesale, Retail Trade, Restaurants and Hotels	**-**	239
Transport, Storage and Communication	**-**	-
Finance Insurance and Business Services	**-**	-
Real Estate Community, Social and Personal Services	**-**	-
	2,925	5,277

Credit Exposures analysed by Industry

	Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**
By industry sector:				
Agricultural	759	720	39	-
Manufacturing	5,758	5,581	177	-
Transportation	101	96	5	-
Infrastructure	778	739	39	-
Traders	38,790	37,149	1,641	-
Professional services	9,689	8,818	871	-
Constructions and Property Financing	34,964	28,917	4,071	1,976
Tourism	472	448	24	-
Telecommunication and Information Technology	2,018	1,952	66	-
	93,329	84,420	6,933	1,976

Credit exposure analysed by geography

	In Brunei	Outside Brunei	Total
Cash and short-term funds	445	227	672
Deposits and placements with financial institutions	-	160,591	160,591
Loans, advances and financing	93,329	-	93,329
Other assets	669	-	669
Balances with Autoriti Monetari Brunei Darussalam and Government SUKUK	30,560	-	30,560
	125,003	160,818	285,821
Commitments and contingencies	69,424	-	69,424

The Credit Exposures by Remaining Contractual Maturities of the Branch for the year ended 31 December 2021 were as follows:

	Corporates (including SMEs)
< 3 Months	83,341
3 – 6 Months	9,988
6 – 12 Months	-
1 – 3 Years	-
3- 5 Years	-
> 5 years	-
Grand Total	93,329

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

	Neither past due nor impaired	**Past due but not Impaired**	Non-performing	Interest Receivables	**Stage 1**	**Stage 2**	**Stage 3**	**Net total**
Current	88,725	-	841	401	(367)	(200)	-	89,400
Within 90 days	-	2,913	-	12	(10)	(5)	-	2,910
Over 90 to 180 days	-	-	-	-	-	-	-	-
Over 180 days	-	-	3,806	514	-	-	(3,301)	1,019
	88,725	2,913	4,647	927	(377)	(205)	(3,301)	93,329

7.4 Overview of credit risk mitigation (CRM) Techniques

		a	b	c	d	e
		Exposures unsecured	**Exposures secured**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
1	Loans	22,872	70,457	70,457	-	-
2	Debts Securities (SUKUK)	10,942	-	-	-	-
3	Total	33,814	70,457	70,457	-	-
4	Of which defaulted	-	1,976	1,976	-	-

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

7.5 **Qualitative disclosures on banks' use of external ratings under the standardised approach for credit risk**.

External Credit Assessments

1. In accordance with the rules and principles laid down by the Basel Committee, the BDCB has identified the following international rating agencies as External Credit Assessment Institutions (ECAIs) for the purposes of risk weighting exposures for capital adequacy purposes-

   - Moody's
   - Standard and Poor's; and
   - Fitch Ratings

2. Banks are required to obtain the prior approval of the BDCB before using other ECAIs.

3. Banks shall not use one ECAI's rating for one exposure, while using another ECAI's rating for another exposure to the same counterpart, unless the respective exposures are rated by only one of the chosen ECAIs whose ratings the bank has decided to use. External assessments for one entity within a corporate group cannot be used to risk weight other entities within the same group (e.g. where such other entities are not rated).

4. *For banks registered and incorporated abroad*, the rating applicable to the Head Office may be used as the rating applicable to the particular branch, if the branch is not rated locally.

5. Banks shall be guided by the following in respect of exposures/ obligors having multiple ratings from the eligible ECAIs chosen by the bank for the purpose of risk weight computation: -
   - If there is only one rating by an eligible ECAI for a particular claim, that rating shall be used to determine the risk weight of the claim.
   - If there are two ratings accorded by an eligible ECAI, which map into different risk weights, the higher risk weight shall be applied.
   - If there are three or more ratings accorded by eligible ECAI with different risk weights, the ratings corresponding to the two lowest risk weights shall be referred to and the higher of those two risk weights shall be applied, i.e., the second lowest risk weight.

6. Where a bank invests in a particular issue (of a bond or SUKUK, for example) that has an issue-specific assessment, the risk weight of the claim shall be based on this assessment.

7. Other unassessed claims of an issuer will be treated as unrated

As indicated in the BDCB Capital Adequacy Framework, Exposures to Corporates are explained as per below:-

- Exposures on rated Corporates, including claims on insurance/takaful companies shall be weighted according to the external credit assessment of the entity per below table

Rating Category	Standard and Poor's Rating Services (S&P)	Moody's Investors Service (Moody's)	Fitch Ratings (Fitch)	Risk Weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%
5	B+ to D	B1 to C	B+ to D	150%
Unrated				100%

- The risk weight for unrated claims on Corporates incorporated in Brunei Darussalam shall be 100%. This will be applied with our reporting as all of our corporate borrowers are incorporated in Brunei Darussalam and do not have credit rating.

- No claim on an unrated Corporate incorporated outside Brunei Darussalam, may be given a risk weight preferential to the assigned to its sovereign of incorporation

7.6 Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

		a	b	c	d	e	f
		Exposures before CCF and CRM		**Exposure post-CCF and CRM**		**RWA and RWA Density**	
		On-balance sheet amount	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA Density**
1	Sovereigns and their central banks	30,556		-	-	-	0%
2	Non-Central government public sectors entities	-					
3	Multilateral development banks	-					
4	Banks	161,037		32,207		32,207	100%
5	Securities firms	-		-			
6	Corporates	91,353	4,442	60,994	1,984	62,978	100%
7	Regulatory retail portfolio	-		-			
8	Secured by residential property	4,163		2,238		2,238	100%
9	Secured by commercial real estates	33,762		33,762		33,762	100%
10	Equity	-		-		-	
11	Past due loans	1,807		2,711		2,711	100%
12	Higher-risk categories	-		-			
13	Other assets	3,253		2,476		2,476	100%
14	**Total**	**325,931**	**4,442**	**134,488**	**1,984**	**136,372**	

7.7 Standardised Approach – Exposures by asset classes and risk weights

		a	b	c	d	e	f	g	h	i	j
	Risk Weights / **Asset Classes**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Other**	**Total credit exposures amount (post CCF and post CRM)**
1	Sovereigns and their central banks										
2	Non-Central government public sectors entities (PSEs)										
3	Multilateral development banks										
4	Banks				32,207						32,207
5	Securities firms										
6	Corporates							60,994		1,984	62,979
7	Regulatory retail portfolio										
8	Secured by residential property				774		1,464				2,238
9	Secured by commercial real estates							33,762			33,762
10	Equity										-
11	Past due loans								2,711		2,711
12	Higher-risk categories										-
13	Other assets							2,476			2,476
14	**Total**				**32,981**		**1,464**	**97,232**	**2,711**	**1,984**	**136,372**

8. COUNTERPARTY CREDIT RISK (CCR)

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 2021 were as follows:

Description	**Principal Amount**	**Positive Fair Value of Derivatives Contracts**	**Credit Equivalent Amount**
Transactions related contingent items	8,141	8,141	4,070
Short-term self-liquidating trade related contingencies	1,860	1,869	372
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-
Other commitments which can be unconditionally cancelled at any time	59,423	59,423	-
Total	**69,424**	**69,424**	**4,442**

9. SECURITISATION

UOB Brunei Branch currently does not invest in securitisation transactions.

10. MARKET RISK

10.1 Qualitative disclosure requirements related to market risk.

Market risk is defined as the risk to the bank earnings and capital due to changes in the market interest rate or prices of securities, foreign exchange, commodities and equities as well as volatilities of changes.

UOB Brunei has been classified by HO as a non-Global Markets center and as such, it will not do market making or hold onto trading positions. As of December 2021, it has no outstanding securities in the trading book.

In order to support customer transactions or for liquidity management purposes, UOB Brunei may have foreign exchange ("FX") exposures arising from plain-vanilla FX spot, forward and swap transactions which are short-term in nature and which, as matter of procedure, are squared off as soon as possible, so the Branch does not hold onto significant net open position.

➢ Measurement

As of December 2021, the Branch's market risk summary is as follows:

	RWA	Capital Charge
Interest Rate		
- General Market Risk	-	-
- Specific Risk	-	-
Equity		
- General Market Risk	-	-
- Specific Risk	-	-
Foreign Exchange	1,357	108
Total	**1,357**	**108**

➢ Policy Overview

Detailed market risk policies covering investments, foreign exchange risk management and derivatives are in place. The key aspects are as follows:

- Roles and Responsibilities: UOB Ltd has a Management Committee who is overseeing the Asset and Liability of UB Brunei. This committee is responsible for defining, estimating the market risk inherent in all activities and the pattern and composition of investments. UOB Brunei may only hold or assume market risks as may be approved by the Group ALCO, and presently, it has not been delegated any limit for market making or trading positions.
- Valuation and Pricing: The Branch values its foreign exchange marked-to-market based on the rates independently obtained from accepted market sources. Investments, if any, are valued and marked to market as per regulatory guidelines.
- Approved Instruments and Currencies: The Branch has in place an approved list of products for its market risk-related transactions. It may only deal in such instruments and currencies as approved by Group ALCO.
- Limits: The Branch has clearly defined limits for different categories of instruments. These limits are approved by Group ALCO. Limits include net open position, tenors, counterparty, stop loss, tenor and holding periods. They are continuously monitored on a daily basis or at such frequency as required.

10.2 Market risk under the Standardised Approach

		(a)
		RWA
1	Interest / Profit rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	1,357
4	Commodity Risk	-
5	Total	1,357

11. **INTEREST RATE RISK IN THE BANKING BOOK**

Interest Rate Risk in the Banking Book ('IRRBB') risk management objectives and policies

Interest Rate Risk in the Banking Book ("IRRBB") is the risk where changes in market interest rates might adversely affect the Branch's financial condition. The immediate impact of the change in the interest rate will be on the Net Interest Income ("NII") of the Branch since the returns on the interest bearing assets and interest bearing liabilities are likely to be affected. However, in the long term the impact of changing interest rates will be felt on the Branch's net worth since the economic value of the banks' assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

UOB Brunei calculates and determines bucket-wise maturity/re-pricing of interest rate sensitive assets and liabilities.

Hereunder interest-sensitive data as of December 2021 was used. Shocks are applied as follows: Parallel, 200; Short, 300; Long, 150. Shocks and scenarios are based on the Group methodology used in managing interest rate risks.

Results are presented in the table below. The worst of the EVE or NII is assumed for capital calculation purposes.

- Calculations

	Up to 7 days	Over 7 days - 1 month	Over 1 - 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years
Rate	0.91	1.58	0.9	0.6	1.53	0	0	0	0
Assets	49,253	35,423	106,673	59,588	2,500	0	0	0	0
Liabilities	40,212	30,714	39,369	50,785	16,074	0	0	0	0
Interest Sensitivity Gap	9,041	4,709	67,304	8,803	(13,574)	0	0	0	0
Net Cumulative Gap	9,041	13,750	81,054	89,857	76,283	0	0	0	0

	Impact
NII (12 mos.)	
Parallel Shock Up	692
Parallel Shock Down	(1,025)
EVE	
Parallel Shock Up	(211)
Parallel Shock Down	210
Steepener Shock	269
Flattener Shock	(325)
Short Rates Shock Up	(398)
Short Rates Shock Down	400

- Analysis

There is presently no regulatory threshold on the EVE and considering the drop is not significant (less than 1% of capital), no further capital needs to be allocated for interest rate risk in the banking book.

The worst impact on NII over the next 12 months is at BND692 Thousand (less than 1% of capital).

OPERATIONAL RISK

- Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Potential loss may be in the form of financial loss or other damages, e.g., loss of reputation and public confidence that will impact the bank's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk includes legal risk, fraud risk, compliance risk (discussed separately), technology risk and reputational risk (discussed separately). Reputational risk, together with strategic risk, is excluded for capital computation.

Legal risk arises out of the legal implications of failed systems, people, processes or external events. From credit risk mitigation perspective, it arises from the possibility that the legal mechanism by which the collateral was pledged or transferred does not guarantee that the bank has the right to liquidate or seize the collateral.

Fraud risk arises from acts with an element to deceive or conceal facts, and is not restricted to monetary or material benefits.

Technology risk, another integral part of operational risk, stems out of failure in systems or non-adherence to laid-down processes or misuse by staff apart from external events.

UOB Ltd has a commitment to meeting high ethical operational risk management standards in the way it conducts its business. To ensure operational risks are effectively managed, it has in place various operational risk frameworks, policies, guidelines and programs which include IT and information security, new products/services, incident reporting, outsourcing, key risks and controls self-assessment, key operational risk indicators, management risk awareness and business continuity management.

Governance operates on the "Three Lines of Defense" model wherein the business / support lines that have primary responsibility to identify and manage operational risks at their level are in the first line, with Compliance and Risk Management performing independent oversight in the second line and internal and external audit performing independent review in the third line.

- Framework of Operational Risk Management

Operational risk results from failure of systems, internal process, people and/or external interventions such as fraud and forgeries. UOB Brunei gives high priority to the management of operational risk. It is controlled by the following process:

- All transactions are properly authorized under four-eyes controls;
- All transactions are properly recorded;
- Controls are in place;
- Assets are safeguarded;
- Sound ethical standards are adhered to; and
- Full compliance to laws, regulations and corporate policies.

- Measurement

UOB Brunei has adopted the Basic Indicator Approach for Operational Risk. Under the regulatory framework, the average profits for the last 3 years are to be earmarked as capital towards operational risks.

As of December 2021, the capital charge and RWA of the Branch for Operational Risk are at BND1,066 and BND13,328 respectively.

	Dec 2019	Dec 2020	Dec 2021	Total Amount	Average Amount
Gross Income	**7,742**	**6,961**	**6,621**	**21,324**	**7,108**
Net Income	**7,742**	**6,961**	**6,621**	**21,324**	**7,108**
Net Interest/profit Income (Interest/profit income – interest expense)	6,522	5,774	5,732	18,028	6,009
Non-Interest/profit income	1,220	1,187	889	3,296	1,099
Less :	-	-	-	-	-
Realised Profits from the sale of securities in the banking book	**-**	**-**	**-**	**-**	**-**
Extraordinary / irregular item of Income	**-**	**-**	**-**	**-**	**-**
Total Capital Charge for Operational Risk	**1,161**	**1,044**	**993**	**3,199**	**1,066**
Total Risk-Weighted Assets for Operational Risk	**14,516**	**13,052**	**12,414**	**39,983**	**13,328**