

Malayan Banking Berhad

Brunei Darussalam Branch

Basel II Pillar 3 Disclosure

As at 30 June 2019

Contents

- I. OVERVIEW 1
- II. CAPITAL MANAGEMENT..... 1
- III. RISK MANAGEMENT FRAMEWORK 1
- IV. CREDIT RISK RELATED DISCLOSURES 3
- V. MARKET RISK..... 7
- VI. INTERNAL AUDIT 7
- VII. COMPLIANCE AND COMPLIANCE FUNCTION 7

Malayan Banking Berhad - Brunei Darussalam Branch

Basel II Pillar 3 Disclosure

I. OVERVIEW

The Pillar 3 Disclosure for the financial year ended 30 June 2019 for Malayan Banking Berhad - Brunei Darussalam Branch (“Maybank” or the “Branch”) is in accordance with Autoriti Monetari Brunei Darussalam Branch’s (“AMBD”) Guidelines on Pillar 3 Public Disclosure Requirements, which are the equivalent of that issued by the Basel Committee on Banking Supervision (“BCBS”) entitled International Convergence of Capital Measurement and Capital Standards (commonly referred to as Basel II).

Following the methodology employed by the Malayan Banking Berhad (“Head Office” or the “Group”), the Branch adopts the following approaches in determining the capital requirements of Pillar 1 in accordance with AMBD’s Guidelines on Capital Adequacy Framework (Basel II - Risk-Weighted Assets):

- Credit Risk -Standardised Approach (“SA”) and will migrate to the Internal Ratings-Based (“IRB”) approaches progressively.
- Market Risk - Standardised Approach (“SA”).
- Operational Risk - Basic Indicator Approach (“BIA”).

LOCATION OF DISCLOSURE

The Pillar 3 Disclosure will be made available to the public upon request via hard copy or electronically.

II. CAPITAL MANAGEMENT

The Branch's approach to capital management is to ensure that the Branch maintains adequate level of capital necessary to support its business and growth and to meet regulatory capital requirements at all times.

Branch's capital planning and assessment process is guided by Branch's Capital Management Framework. Branch are required to develop own Capital Management Framework based on the overarching principles of the Group Framework but take into account the nature of business, risk profile and the local operating environment. This will ensure that capital is managed on an integrated approach and in compliance with all internal and external regulatory requirements across the Maybank Group.

The Capital Management Framework is to be reviewed and updated either on annual basis or whenever necessary to reflect changes in policies, governance or regulatory environment, amongst others.

III. RISK MANAGEMENT FRAMEWORK

The Group's risk management approach, which is followed by the Branch, is underpinned by a sound and robust Integrated Risk Management Framework, which is constantly enhanced to remain relevant and resilient ahead of the versatile global risk landscape and changes in regulatory requirements, and leading practices in ensuring effective management of risk. The key principles are broadly described below:

Principles	Description
Establish risk appetite & strategy	The risk appetite is approved by the Head Office's Board, which articulates the nature, type and level of risk the Branch is willing to assume.

Assign adequate capital	The approach to capital management is driven by strategic objectives and accounts for the relevant regulatory, economic and commercial environment in which the Branch operates.
Ensure proper governance and oversight function	There is a clear, effective and robust Branch governance structure with well-defined, transparent and consistent lines of responsibility established within the Branch.
Promote strong risk culture	Institutionalisation of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
Implement sound risk frameworks, policies and procedures	Implementation of integrated risk frameworks, policies and procedures to ensure that risk management practices and processes are effective at all levels.
Execute strong risk management practices and processes	Robust risk management processes are in place to actively identify, measure, control, monitor and report risks inherent in all products and activities undertaken by the Branch.
Ensure sufficient resources and system infrastructure	Ensure sufficient resources, infrastructure and techniques are established to enable effective risk management.

RISK APPETITE

The Group’s risk appetite is an integral component of the Group’s robust risk management framework and is driven by both top-down Board leadership and bottom-up involvement of management at all levels. Our risk appetite enables the Board and Senior Management to communicate, understand and assess the types and levels of risk that the Group is willing to accept in pursuit of its business and strategic goals while taking into consideration constraints under stressed environment.

The risk appetite is integrated into the strategic planning process, and remains dynamic and responsive to the changing internal and external drivers such as market conditions, stakeholder’s expectations and internal capabilities. In addition, the budgeting process is aligned to the risk appetite in ensuring that projected revenues arising from business transactions are consistent with the risk profile established. Our risk appetite also provides a consistent structure in understanding risk and is embedded in day-to-day business activities and decisions throughout the Group.

Guided by these principles, our risk appetite is articulated through a set of Risk Appetite Statements for all material risks across the Group and Branch to ultimately balance the strategic objectives of the Group.

RISK GOVERNANCE AND OVERSIGHT

The risk governance model provides a formalised, transparent and effective governance structure that promotes active involvement from the Board and Senior Management in the risk management process to ensure a uniform view of risk across the Group and Branch. The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the three lines of defence.

The risk governance structure is premised on the three lines of defence and clearly defines the lines of authority, roles and responsibilities to efficiently manage risk across the Group and Branch.

INDEPENDENT GROUP RISK FUNCTION

Group Risk provides oversight of risk management on an enterprise-wide level through the establishment of the Group’s risk strategies, frameworks and policies with independent assessment and monitoring of all risks challenges.

The key pillars of Group Risk functions are as below:

- Provides close support and oversight within key businesses and countries in managing day-to-day risk.

- Drives and manages specific risk areas on an enterprise-wide level for a holistic risk view within the Group and Branch.
- Supports sustainable and quality asset growth with optimal returns.

IV. CREDIT RISK RELATED DISCLOSURES

Tables 1 through 3 present the credit risk exposure by geographic analysis, by various industries and by maturity period respectively.

Table 4 provide details on impaired and past due loans, advances and financing and allowances.

Table 5 provide reconciliation of changes in the allowances for loan impairment.

Tables 6 through 7 show the credit risk mitigation analysis under standardized approach and IRB approach respectively.

Table 1: Disclosure on Credit Risk Exposure - Geographical Analysis for the Branch

Exposure Class	Brunei (BND'000)
As at 30 June 2019	
Exempted Exposures (Standardized Approach)	
Sovereigns/Central Banks	59,992
Corporates	2,671
Regulatory Retail	107,661
Residential Mortgages	3,237
Other Assets	4,415
Total Standardized Approach	177,976
Exposures under the IRB Approach	
Corporate Exposures	131,678
Total IRB Approach	131,678
Total Standardized and IRB Approaches	309,654

Table 2: Disclosure on Credit Risk Exposure - Industry Analysis for the Branch

Exposure Class	Agriculture BND'000	Mining & Quarrying BND'000	Manufacturing BND'000	Construction BND'000	Electricity, Gas & Water Supply BND'000	Wholesale, Retail Trade, Restaurants & Hotels BND'000	Finance, Insurance, Real Estate & Business BND'000	Transport, Storage & Communication BND'000	Education, Health & Others BND'000	Household BND'000	Others BND'000	Total BND'000
As at 30 June 2019												
Exempted Exposures (Standardized Approach)												
Sovereigns/Central Banks	-	-	-	-	-	-	-	-	-	-	59,992	59,992
Corporates	-	-	3	716	-	345	1,141	-	466	-	-	2,671
Regulatory Retail	-	-	412	26,389	-	3,995	-	-	5,630	71,235	-	107,661
Residential Mortgages	-	-	-	-	-	-	-	-	-	3,237	-	3,237
Other Assets	-	-	-	-	-	-	-	-	-	-	4,415	4,415
Total Standardized Approach	-	-	415	27,105	-	4,340	1,141	-	6,096	74,472	64,407	177,976
Exposures under the IRB Approach												
Corporate Exposures	3,738	-	7,331	35,151	-	67,609	4,224	573	13,052	-	-	131,678
Total IRB Approach	3,738	-	7,331	35,151	-	67,609	4,224	573	13,052	-	-	131,678
Total Standardized and IRB Approaches	3,738	-	7,746	62,256	-	71,949	5,365	573	19,148	74,472	64,407	309,654

Table 3: Disclosure on Credit Risk Exposure - Maturity Analysis for the Branch

Exposure Class	One year or less BND'000	One to five years BND'000	Over five years BND'000	Total BND'000
As at 30 June 2019				
Exempted Exposures (Standardised Approach)				
Sovereigns/Central Banks	15,020	44,972	-	59,992
Corporates	1,348	623	700	2,672
Regulatory Retail	5,011	13,365	89,285	107,661
Residential Mortgages	-	1,937	1,300	3,237
Other Assets	-	4,415	-	4,415
Total Standardised Approach	21,379	65,312	91,285	177,976
Exposures under the IRB Approach				
Corporate Exposures	65,335	51,439	14,904	131,678
Total IRB Approach	65,335	51,439	14,904	131,678
Total Standardised and IRB Approaches	86,714	116,751	106,189	309,654

Table 4: Impaired and Past Due Loans, Advances and Financing and Allowances - Industry Analysis for the Branch

	Impaired Loans, Advances and Financing BND'000	Past Due Loans BND'000	ECL BND'000
As at 30 June 2019			
Agriculture	-	-	18
Manufacturing	-	-	26
Construction	6,385	1,508	3,843
Wholesale, retail trade, restaurants & hotels	2,457	15	2,492
Finance, insurance, real estate & business	-	-	6
Transport, storage & communication	-	-	13
Education, health & others	375	123	251
Household	14,080	7,654	4,429
Others	-	-	-
Total	23,297	9,300	11,078

Table 5: Disclosure on the changes in the loss allowances for loans and advances

BND'000	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	1,173	1,217	7,049	9,439
New financial assets originated or purchased	28	-	-	28
Financial assets derecognized	(6)	(3)	(19)	(28)
Changes due to change in credit risk	228	744	2,598	3,570
Amount written-off/realised	-	-	(1,805)	(1,805)
Changes due to update in methodology	(187)	32	-	(155)
Other Adjustments	229	(275)	75	29
Total	1,465	1,715	7,898	11,078

Table 6: Disclosure on Credit Risk Mitigation Analysis (Standardized Approach) for the Branch

Exposure Class	Exposures before CRM BND'000	Exposures Covered by Guarantees/ Credit Derivatives BND'000	Exposures Covered by Eligible Financial Collateral BND'000	Exposures Covered by Other Eligible Collateral BND'000
As at 30 June 2019				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	59,992	-	-	-
Banks, Development Financial Institutions & MDBs	240,711	-	-	-
Corporates	1,061	-	1	744
Regulatory Retail	109,942	-	880	96,100
Residential Mortgages	3,309	-	-	3,170
Other Assets	4,415	-	-	-
Total On-Balance Sheet Exposures	419,430	-	881	100,014
Off-Balance Sheet Exposures				
Banks, Development Financial Institutions & MDBs	716	-	-	-
Corporates	1,910	-	91	-
Regulatory Retail	55	-	55	-
Total for Off-Balance Sheet Exposures	2,681	-	146	-
Total On and Off-Balance Sheet Exposures	422,111	-	1,027	100,014

Table 7: Disclosure on Credit Risk Mitigation Analysis (IRB Approach) for the Branch

Exposure Class	Exposures before CRM BND'000	Exposures Covered by Guarantees/ Credit Derivatives BND'000	Exposures Covered by Eligible Financial Collateral BND'000	Exposures Covered by Other Eligible Collateral BND'000
As at 30 June 2019				
On-Balance Sheet Exposures				
Corporates	88,554	-	10,032	19,704
Total On-Balance Sheet Exposures	88,554	-	10,032	19,704
Corporate Exposures	13,051	-	767	-
Total for Off-Balance Sheet Exposures	13,051	-	767	-
Total On and Off-Balance Sheet Exposures	101,605	-	10,799	19,704

V. MARKET RISK

FOREIGN EXCHANGE RISK

Table 8 shows a summary of quantitative data about the Branch's net exposure to major foreign currencies.

Table 8: Branch's net exposure to major foreign currencies

	GBP	USD	Others	Total
As at 30 June 2019				
Financial assets				
Group balances receivable	15	1,582	78	1,675
Financial liabilities				
Group balances payable	-	-	12	12

INTEREST RATE RISK

Table 9: Interest rate profile of the Branch's interest-bearing financial instruments as at 30 June 2019

	2019 BND '000
Fixed-rate assets	211,401
Floating-rate assets	196,876
Fixed-rate liabilities	(307,492)
	100,785

VI. INTERNAL AUDIT

Maybank Brunei is a branch of Maybank Malaysia and the Internal Audit (IA) function is organized on a Group basis. As of 31 December 2018, Group Audit had a staff strength of 319 individuals from diverse backgrounds and qualifications. The IA function is established by the Board to undertake independent review and assessment on the adequacy, efficiency and effectiveness of risk management, control and governance process implemented by Management. The IA function is independent of the activities or operations of other operating units in the Group. To maintain its impartiality, proficiency and due professional care as outlined in the Audit Charter (as approved by the Audit Committee of the Board and noted by Board).

VII. COMPLIANCE AND COMPLIANCE FUNCTION

Compliance unit in Maybank Brunei has a direct reporting line to Group Chief Compliance Officer and is required to report to Compliance Governance on any instances of non-conformance with obligations and the remedial action taken to address them including continuing non-compliance issues.

Compliance Officers are responsible to provide regular update to Group Compliance Governance and closely monitor the matter until completely resolved. Regular reporting of these items will be presented to the Board and Senior Management.

Compliance Officers have the responsibility as a second line of defense who set the standards, provide governance, oversight and advice and perform periodic control reviews in relation to regulatory and compliance risk.

Certification

This Pillar 3 Disclosure is prepared in accordance to the AMBD's Pillar 3 Guidelines and we certify that the information contained in this disclosure is true and correct to the best of our knowledge.



Sulaiman bin Isa
General Manager



Noor Hajirah Saban
Head, Finance & Strategy