



Brunei's Banking Sector Continues to be Strong in 2015

Brunei Darussalam's financial system consists of a dual financial system comprising Islamic and conventional financial institutions with an asset base of BND 20.7 billion as at year end 2015. The financial system in Brunei Darussalam is dominated by banking institutions with an asset base of BND 17.0 billion at 2015, accounting for 82.0% of the total assets of the financial system.

Recent Developments in the Banking and Financial Sector

Table 1: Regulations issued in 2015

Notice No.	Notice Title
BS/N-1/2015/30	Total Debt Service Ratio
BS/N-2/2015/31	Unsecured Personal Credit Facility
BS/N-3/2015/32	Unsecured Personal Financing Facility
BS/N-4/2015/33	Consolidation Loan Scheme
BS/N-5/2015/34	Consolidation Financing Scheme
BS/N-6/2015/35	Service Fees/Charges
1/2012	Credit Cards

Source: Banking Supervision/AMBD

On 28th May 2015, Autoriti Monetari Brunei Darussalam (AMBD) issued several Regulatory Notices as shown in **Table 1** above, which aimed to reduce household debt as a source of vulnerabilities to the socio-economy as a whole, with reference to the following guiding principles:-

- i. To inculcate responsible and ethical lending practices by financial institutions in their dealings with individual customers;
- ii. To promote responsible lending and borrowing behaviours to foster a healthy and sustainable credit market which in turn contributes to economic and financial stability;
- iii. To further strengthen the protection of consumers' interests.

The key features of the Regulatory Notices, which became effective from 8th June 2015, included the following:-

- i) Banks (including Perbadanan TAIB for the purpose of this report) offering Unsecured Personal Credit/Financing Facilities were given more capacity to increase their personal credit portfolio from 30% to 40% of their respective total

credit facilities, thereby increasing the opportunities for consumers to obtain personal credit;

- ii) Banks offering Unsecured Personal Credit/Financing Facilities were allowed to offer facilities at a higher limit of 18 times of the borrower's net monthly salary at a maximum tenure of 6 years;
- iii) The increase in credit entitlement for Unsecured Personal Credit/Financing Facilities was also introduced alongside some control mechanisms such as the introduction of a maximum monthly TDSR (Total Debt Service Ratio) to all customers applying for a credit/ financing facility. This TDSR limits an individual's monthly debt obligation as a percentage of net monthly income and at the same time ensures that there is sufficient disposable income for the borrower's daily living expenses and hence acts as a tool to allow borrowers to manage their debt more efficiently. The maximum TDSR set by AMBD is at 60% for borrowers with a minimum net salary of BND 1,750.00 and above. Below this salary range, borrowers are subject to the individual financial institutions' internal policy on TDSR. Financial institutions are required to ensure that customers will not be over-burdened with monthly instalments on credit/financing facilities.
- iv) The Notice also has certain elements for consumer protection, such as the following:-
 - a) The Notice allows banks and Perbadanan TAIB to offer a Consolidation Loan/Financing Scheme, which aims to assist heavily indebted borrowers with significant monthly debt obligations. Subject to meeting the required set of criteria, this scheme allow borrowers to consolidate their existing debt obligations into one payment and thus to have a lower monthly repayment obligation overall;
 - b) Borrowers are required to purchase an insurance/takaful protection policy for every new and restructured (top-up) facility which provides protection to the borrower in the event of death and/or total permanent disability;
 - c) Certain fees such as Early Settlement Fees and Restructuring/top-up fees are capped to allow customers to settle early or reschedule without unnecessary financial burden. Fees related to issuances of Certificate of Balance and Clearance letters are also capped to allow customers to move to their preferred banks, without incurring high fees; and
 - d) The Notice also required relevant financial institutions to be more transparent and provide maximum disclosure on all fees and charges imposed on products and services to their customers. Measures also include providing a Loan/Financing Repayment Schedule upon approval of a new Credit/Financing facility. These measures are aimed at encouraging better management of personal debt and increasing the level of financial literacy among the public.

On 28th October 2015, as part of its on-going commitment to provide a stable and healthy consumer finance market, AMBD amended several of its Regulatory Notices. These amendments served to relax certain conditions relating to unsecured personal credit/ financing facility and credit cards, including the following:-

- i. Allowing certain additional income streams to be included in the definition of Net Monthly Income for the working population; and
- ii. Banks were also allowed to offer credit cards without the precondition of borrowers assigning their salary and conditions relating to fixed deposit for credit cards were relaxed.

Also as part of AMBD's ongoing commitment to the development of a sound and progressive financial sector, a review of the continuing need for several existing regulations was conducted. On 8th September 2015, AMBD withdrew the directives issued on December 2004 and October 2006 to finance companies, which required customers to place a deposit of a minimum of 12.5% of the vehicle price (approved by the Department of Economic Planning and Development) for any vehicle financing facility.

Overview of the Banking Sector

Overall Brunei's banking system remains resilient. With the banking system representing the core of the financial system, banking regulation and supervision are continuously being strengthened to ensure that financial stability prevails in our financial system, in line with international best regulatory practice. AMBD will remain vigilant of risks and external factors that may affect the domestic financial sector and economy. Brunei Darussalam's banks and financial institutions do not have any significant cross border exposures, so external risks such as the Greek debt crisis or possible slowdown of the global economic recovery are not significant risks to the bank's loan/financing books.

The overall key financial soundness indicators in the banking sector continue to be at healthy levels as shown at **Table 2** below. The capital of the banking system continued to be strong with an aggregate capital adequacy ratio of 21.1% in 2015. The banks in Brunei Darussalam remained highly liquid with a liquid assets to total assets ratio in 2015 of 45.6%.

A productive deposit utilization was also evident in the increase in the financing to deposit ratio (excluding government deposits) from 41.8% in 2014 to 46.3% in 2015. This increase is caused mainly by the increase in the business sector's financing by 10.8% (further explained in **Table 3**).

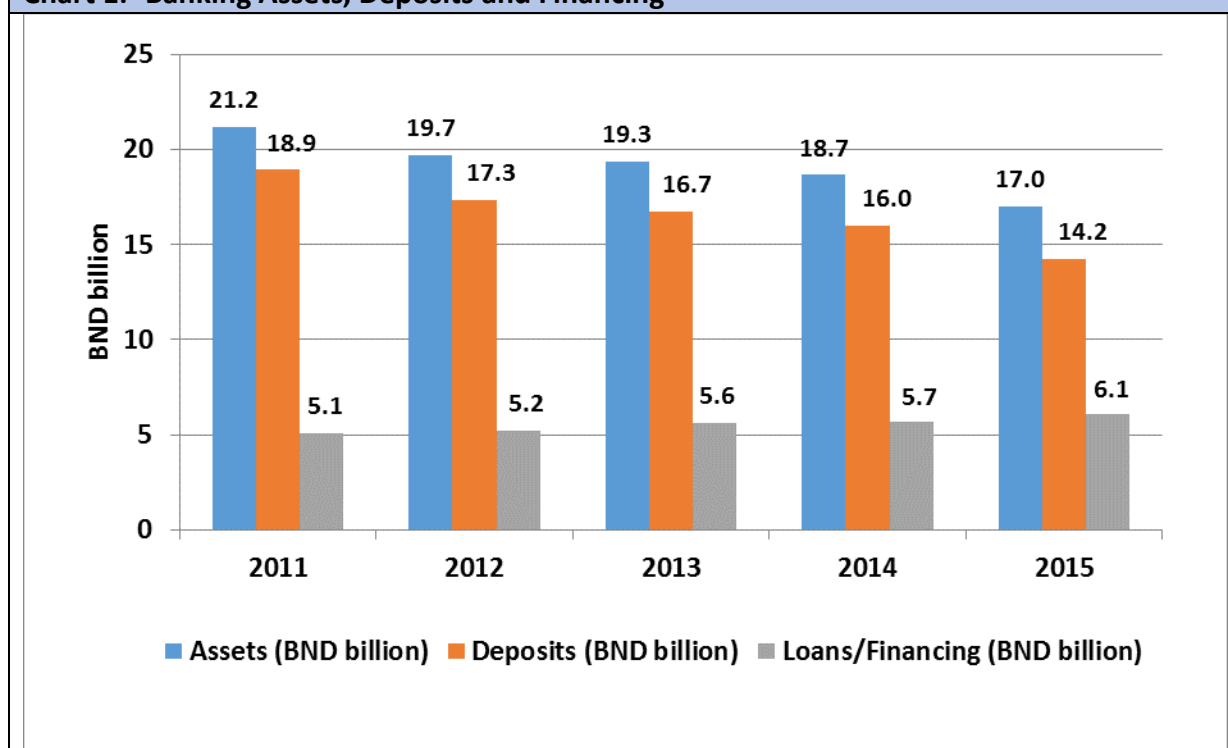
Table 2:- Selected Financial Soundness Indicators for Banks		
Financial Soundness Indicator	2014 %	2015 %
Capital Adequacy		
Regulatory Capital to Risk Weighted Assets	21.4	21.1
Assets Quality		

Net Non-Performing Financing to Financing	2.3	1.7
Profitability		
Return on Assets	1.4	1.4
Return on Equity	10.2	9.5
Liquidity		
Liquid Assets to Total Assets	53.0	45.6
Financing to Deposits Ratio (<i>exc Govt Deposits</i>)	41.8	46.3

Source: Banking Supervision/AMBD
2015 unaudited figures

Overall, the assets and deposits of the banking system have declined by 8.9% from BND 18.7 billion in 2014 to BND 17.0 billion in 2015, and 11.0% from BND 16.0 billion in 2014 to BND 14.2 billion in 2015 respectively. The fall in assets is mainly due to the decrease in placements with banks and financial institutions abroad by 24.0%. On the other hand, the decline in deposits is mainly due to decrease in institutional deposits. Financing recorded a positive growth of 7.6% from BND 5.7 billion in 2014 to BND 6.1 billion in 2015. Asset quality continued to improve with a net non-performing financing ratio (NPLF) of 1.7% in 2015.

Chart 1:- Banking Assets, Deposits and Financing



Source: Banking Supervision/AMBD
2015 unaudited figures

Household debt continued to be the predominant sector at 50.7% of total financing with personal financing at 27.3%. Residential housing being the second largest sector at 23.4% of financing has shown an increase of 3.6% from BND 1.38 billion in 2014 to BND 1.43 billion in 2015. The major contributor to the increase in Residential Housing Financing is the 9.7% increase in Housing Purchase from BND 0.65 billion to BND 0.71 billion, although Land Purchase and Constructions fell by 9.5% from BND 0.31 billion to BND 0.28 billion.

As part of AMBD's aspiration to encourage lending/financing of the banks to the productive sector, credit growth was evident in the corporate sector with a growth of 10.8% from BND 2.72 billion in 2014 to BND 3.01 billion in 2015. The increase was mainly contributed by the manufacturing and services sectors.

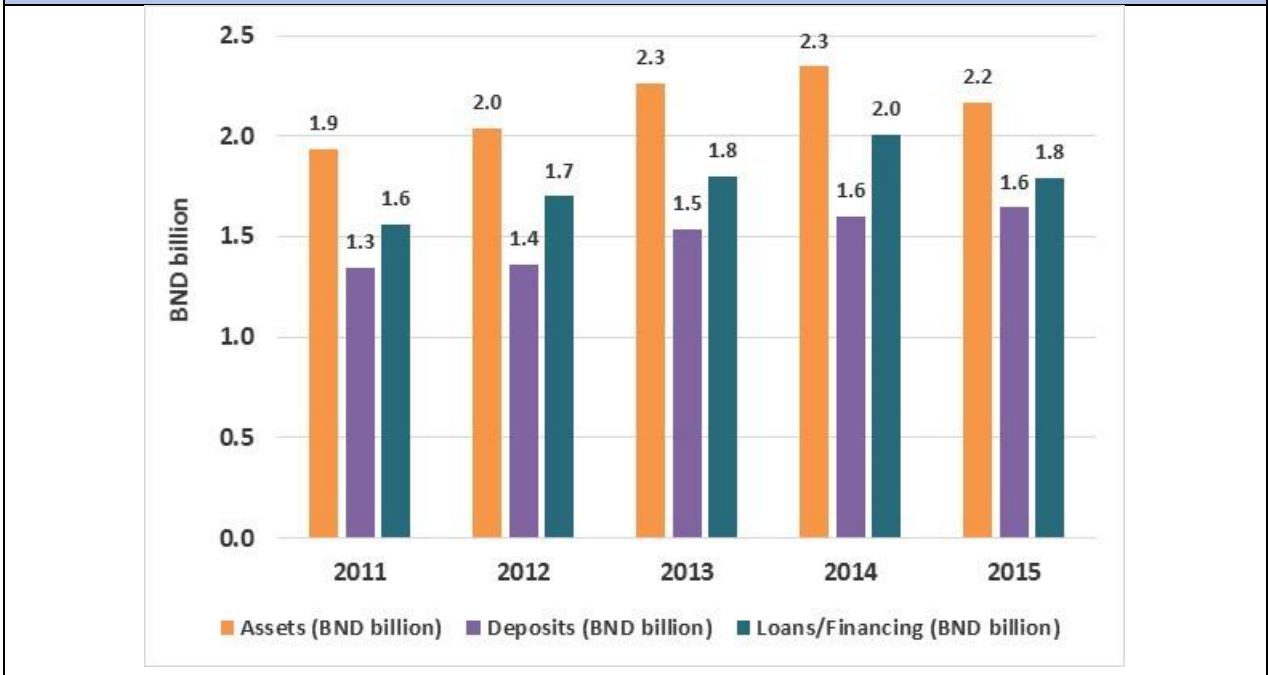
Table 3: Distribution of Financing					
Sector	2014		2015		Percentage (%) Change
	Amount BND million	% of Total Financing	Amount BND million	% of Total Financing	
Household Sector	2,956	52.1	3,094	50.7	4.6
Personal Financing	1,577	27.8	1,664	27.3	5.5
Residential Housing	1,379	24.3	1,430	23.4	3.6
Corporate Sector	2,719	47.9	3,012	49.3	10.8
Commercial Property	609	10.7	586	9.6	-3.8
Transportation	653	11.5	328	5.4	-49.7
Traders	460	8.1	472	7.7	2.6
Services	303	5.3	798	13.1	163.5
Manufacturing	294	5.2	534	8.7	81.4
Others	400	6.9	294	4.8	-26.4
Total Financing	5,675	100.0	6,105	100.0	7.6

*Source: Banking Supervision/AMBD
2015 unaudited figures*

Total deposits of the finance companies have increased marginally by 2.6% from BND 1.60 billion in 2014 to BND 1.64 billion in 2015. Finance companies, whose main activities are hire purchase transactions, faced significant falls in total assets and total financing by 7.7% from BND 2.3 billion to BND 2.2 billion and by 10.7% from BND 2.0 billion to BND 1.8 billion respectively. The fall in assets and financing are caused by two factors:

- Some finance company customers transferred their financing obligations along with other credit obligations to banks by taking advantage of the banks' Consolidation Loan Scheme which was initiated in June 2015; and
- The implementation of the Total Debt Service Ratio (TDSR) in June 2015 appears to have caused borrowers to modify their behavior by concentrating on appreciating assets such as housing (which saw an increase of over BND 50 million. See **table 3**) and engaging in less borrowing for vehicles.

Chart 2: Finance Companies Assets, Deposits and Financing



*Source: Banking Supervision/AMBD
2015 unaudited figures*

AMBD through the Banking Supervision Unit is responsible for licensing, regulating and supervising the banks and finance companies. The primary objective of AMBD’s banking supervision unit is to ensure safety and soundness of banks and finance companies, as well as protecting the interests of consumers and public.

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