



اءوتوريتي مونيتاري بروني دارالسلام
AUTORITI MONETARI BRUNEI DARUSSALAM

2020

Financial Stability Report

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Abbreviations

ACH	Automatic Clearing House
AEC	ASEAN Economic Community
AMBD	Autoriti Monetari Brunei Darussalam
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASEAN	Association of Southeast Asian Nations
AUM	Assets under Management
BAB	Brunei Association of Banks
Baiduri	Baiduri Bank Berhad
BCMA	Brunei Darussalam Capital Market Association
BI	Bank Indonesia
BIBD	Bank Islam Brunei Darussalam
BILIF	Brunei Institute of Leadership and Islamic Finance
BITA	Brunei Insurance and Takaful Association
BND	Brunei Dollar
BNM	Bank Negara Malaysia
BNX	Bursa Brunei Darussalam Sdn Bhd
BOE	Bank of England
BSP	Bangko Sentral ng Pilipinas
CAR	Capital Adequacy Ratio
CCyB	Countercyclical Capital Buffer
CIS	Collective Investment Scheme
CIC	Currency in Circulation
CMSL	Capital Markets Services Licence
CMSRL	Capital Markets Services Representative's Licence
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CSD	Central Securities Depository
DEPS	Department of Economic Planning and Statistics
DPR	Digital Payment Roadmap
D-SIBs	Domestic Systemically Important Banks
ECB	European Central Bank
ECF	Equity Crowdfunding
ePG	e-Payment Gateway
FCY	Foreign Currency
Fed	US Federal Reserve
FSBP	Financial Sector Blueprint
FSSI	Financial System Stability Index
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
I-Bills	Islamic Bills
ICPs	Insurance Core Principles
ICS	Investor Compensation Scheme
IDB	Islamic Development Bank
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
INCEIF	International Centre of Education in Islamic Finance
IRTI	Islamic Research and Training Institute
ISAF	Islamic Syariah Audit Framework
LNG	Liquefied Natural Gas

Abbreviations

MAS	Monetary Authority of Singapore
MCR	Minimum Capital Requirements
MOFE	Ministry of Finance and Economy
NFC	Near Field Communications
NFLC	National Financial Literacy Council
NPLF	Non-Performing Loans/Financing
OPEC+	Organisation of Petroleum Exporting Countries Plus
PCR	Prescribed Capital Requirement
POS	Point-of-sale
PSO	Payment System Oversight
PSS	Payment and Settlement System
PSP	Payment Service Providers
QR	Quick Response
RBCS	Risk-Based Capital and Solvency
RBS	Risk-Based Supervision
RCEP	Regional Comprehensive Economic Partnership
ROA	Return on Assets
ROE	Return on Equity
RPPI	Residential Property Price Index
RTGS	Real Time Gross Settlement
SAPs	Strategic Asian Plans
SBL	Single Borrowing Limit
SIBOR	Singapore Interbank Offered Rate
SGD	Singapore Dollar
SGF	Syariah Governance Framework
SMO	Securities Markets Order, 2013
SOP	Standard Operating Procedure
TAIB	Tabung Amanah Islam Brunei
TBA	Takaful Brunei Am
UAE	United Arab Emirates
USD	United States Dollar
y-o-y	Year-on-year
WHO	World Health Organization
WTI	West Texas Intermediate

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Foreword

By the Managing Director

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
السَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ

The world faced an unprecedented economic and health crisis in 2020 as a result of the Coronavirus disease 2019 [COVID-19]. It was the first time in over a century that a synchronised shock affected nearly all countries in the world. The pandemic forced governments into enacting social distancing measures, including stringent lockdowns, that have changed the everyday lives of billions of people. Financial markets fell sharply in the early stages of the pandemic, with central banks in both advanced and developing countries adopting highly accommodative monetary policy. Commodity markets were also adversely affected by the weaker global demand. International oil prices collapsed with West Texas Intermediate [WTI] prices turning negative briefly in April 2020.

Alhamdulillah, Brunei Darussalam managed to bring the domestic COVID-19 outbreak under control with the effective policies undertaken by the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam. However, some sectors such as tourism and aviation have been significantly affected by COVID-19. AMBD remains committed to ensure financial stability through these challenging times. A set of interim measures were undertaken by the Brunei Association of Banks [BAB], with support from AMBD and the Ministry of Finance and Economy in April 2020. These relief measures aimed to reduce the financial burden of affected individuals and businesses. Separately, a relief measure to assist the struggling

money-changing sector was also introduced by AMBD in May 2020 in consideration of the challenges encountered by the money-changing sector due to limited travelling activities.

The challenges arising from COVID-19 caused the banking industry to experience a decline in performance in 2020. Nevertheless, the banking industry remained well-capitalised and liquid with stable credit quality. The non-banking sectors such as finance companies, takaful operators/insurance companies, and money remittance companies remained resilient. Overall, Brunei Darussalam's financial sector managed to withstand the shocks caused by COVID-19 and continued to provide crucial financial services to the economy.

Looking ahead to 2021, the recovery post COVID-19 will continue with focus on mass vaccinations being rolled out worldwide. AMBD will continue to closely monitor the situation to ensure domestic financial institutions can withstand any further risks and are well-positioned for the "new normal".

In closing, I hope this report will provide readers valuable insights on the state of Brunei Darussalam's financial sector in 2020. I would also like to thank the staff of the Regulatory and Supervision Department for their hard work and dedication in completing this report.

Hajah Rokiah Haji Badar
Managing Director

Key Highlights

Major International Risks

Risks arose from the unprecedented COVID-19 related health and economic crisis.



COVID-19 Pandemic
Health and Economic Crisis



Volatile
Global Financial Markets



Volatile
International Oil Prices

Domestic Economic Performance

Due to the effective mitigation policies introduced by the government to address the impact of the COVID-19 pandemic, Brunei Darussalam's economy saw moderate growth in 2020.



1.2%

Overall GDP Growth



-4.9%

Oil and Gas Sector
GDP Growth

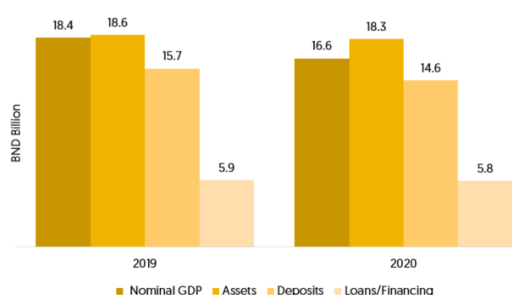


9.0%

Non-oil and Gas Sector
GDP Growth

Domestic Banking Sector Performance

The banking industry faced challenges due to the pandemic but remained well-capitalised and liquid with stable credit quality.



Overall assets, deposits and loans/financing declined in 2020 while loans/financing to deposit ratio increased



Non-performing
Loans/Financing
Ratio

[2019: 4.7%]



ROA
[Before tax]

[2019: 1.8%]



Regulatory
Capital to
Risk Weighted
Assets

[2019: 20.9%]



ROE
[After tax]

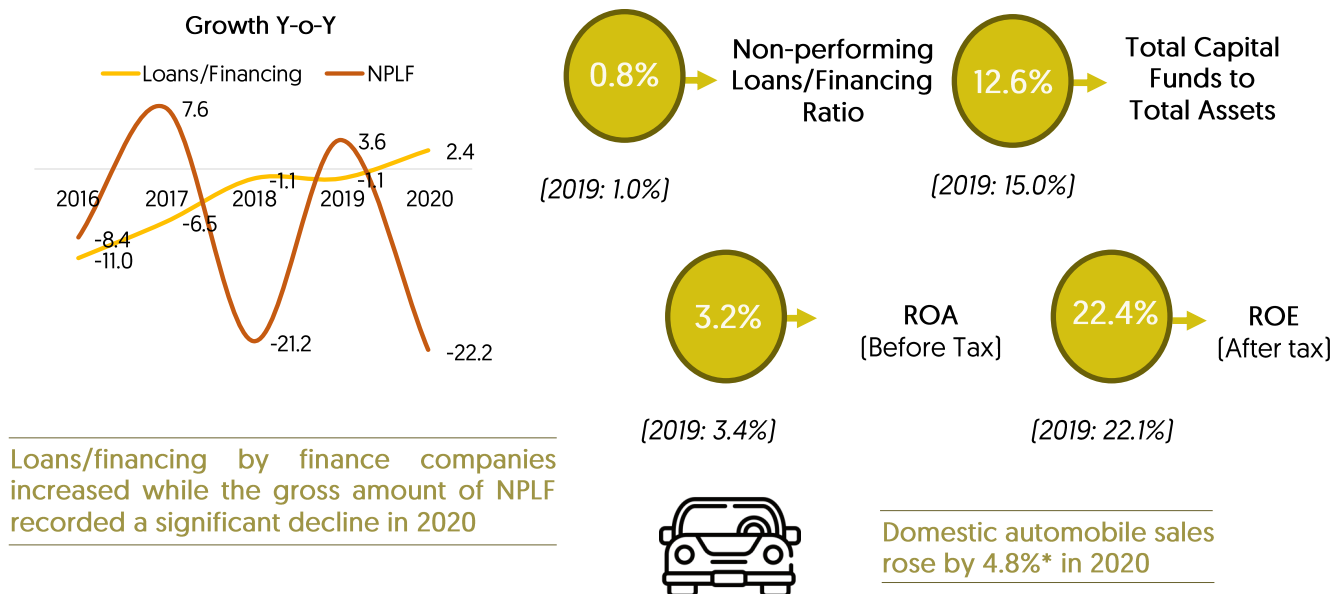
[2019: 12.6%]

Key financial indicators remained stable

Key Highlights

Domestic Finance Companies Performance

Key financial indicators of finance companies remained stable. Brunei Darussalam was the only country in ASEAN to record a rise in automobile sales in 2020.

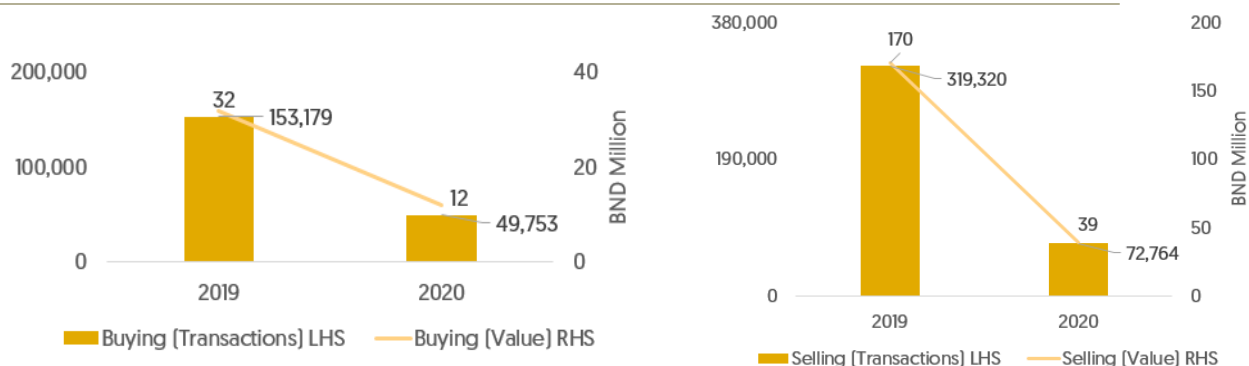


*This figure is up to YTD Nov-20 only, according to data from the ASEAN Automotive Federation.

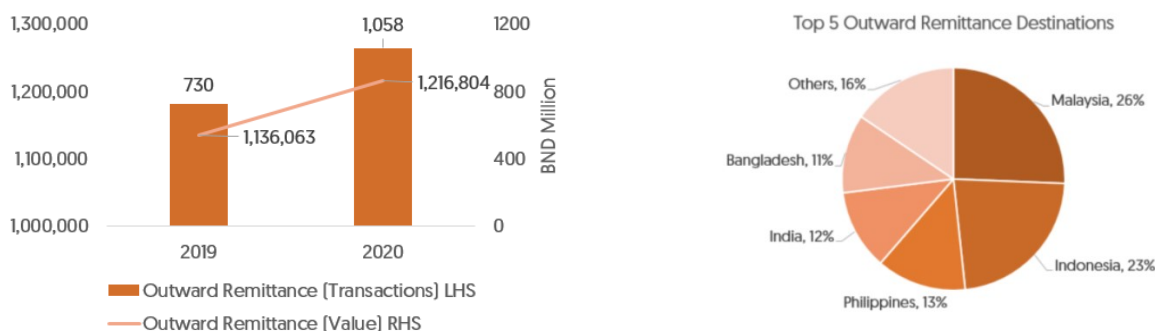
Domestic Money-changing and Remittance Sector Performance

The money-changing sector was affected by travel restrictions imposed by domestic and foreign authorities while the remittance sector remained resolute.

Buying and selling of foreign currencies fell both in terms of value and number of transactions



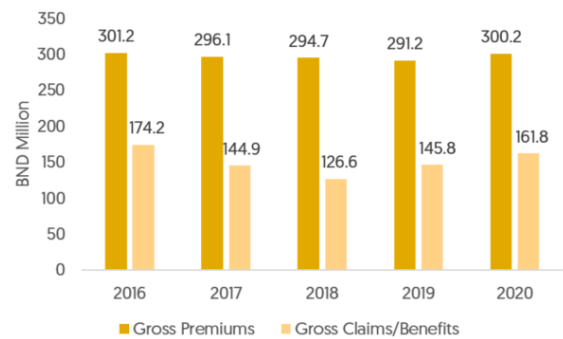
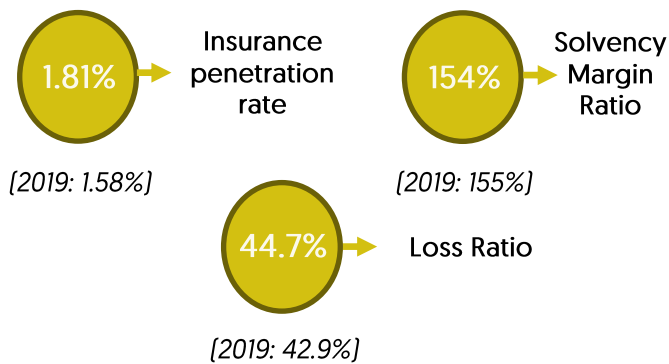
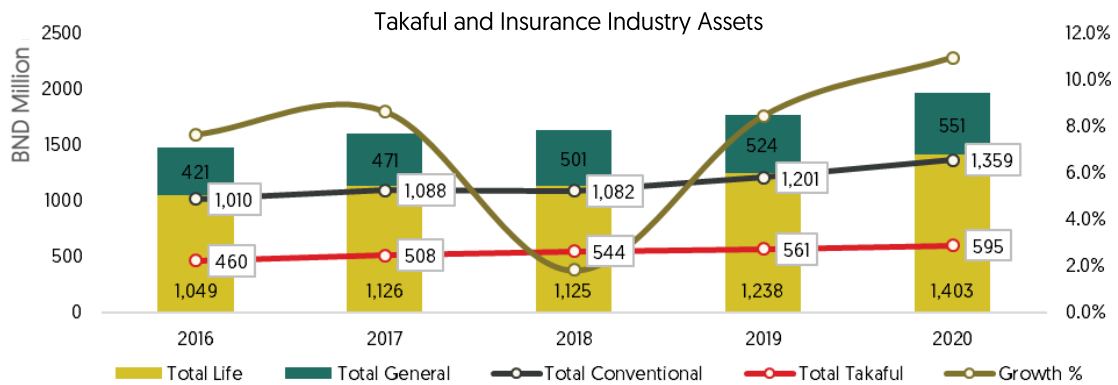
Funds continued to be mobilised into and outside of the country



Key Highlights

Domestic Takaful/Insurance Sector Performance

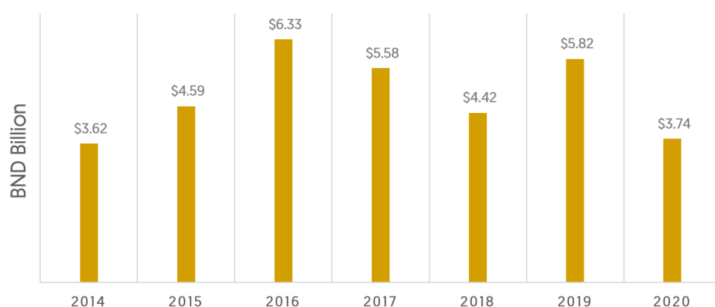
Takaful/insurance companies maintained strong solvency levels. Overall general takaful and insurance business and overall life insurance and family takaful businesses slightly improved but with mixed performances among different lines of business.



Domestic Capital Market Sector Performance

The capital market sector remained resilient despite a fall total assets under management potentially attributed to client sentiment during the pandemic.

Assets under Management



1



8

Market Operator

CMSL Holders



156



24

CMSRL Holders

Collective Investment Schemes

1

International and Domestic Macroeconomic Developments

1.1 External Macroeconomic Risks

This section presents an assessment of external and risks based on international and macroeconomic and financial developments.

The COVID-19 pandemic and the ensuing health and economic crises led to heightened global financial stability risk in 2020. Over the course of one year, the pandemic persisted in duration and intensity with over 79.2 million cases and 1.7 million deaths¹ reported worldwide (WHO 2020). The global economic damage was extensive despite governments implementing a suite of fiscal, monetary and financial policy measures to curb the impact of the virus. According to the IMF, the world economy is estimated to have contracted by 3.5% in 2020², the deepest global recession since World War 2 with many countries reporting its worst economic performance on record.

Against this backdrop, global financial markets saw widespread volatility in 2020 in all asset classes including safe haven assets. Yields fell to low levels as policymakers responded with accommodative monetary policy to support economic recovery. While the European Central Bank maintained its negative interest rate policy, the US Federal Reserve reduced its policy rate by 150 basis points (bps) to 0.25% in March 2020. During the same period, the Bank of England reduced its bank rate to a low of 0.1%, along with increasing its holdings of UK government and corporate bonds by £200 billion.

Association of Southeast Asian Nations (ASEAN) central banks also acted in response to the impacts of COVID-19. Bank Negara Malaysia cut its overnight policy rate four times throughout the year by a total 125 bps to an all-time low of 1.75%, while Bank Indonesia slashed its benchmark interest rate, the 7-day reverse repurchase rate, to 3.75%, the lowest since 2016. In November 2020, the Bangko Sentral ng Pilipinas announced its fifth rate cut of the year of its overnight reverse repurchase facility to 2.0%. Meanwhile, the Monetary Authority of Singapore reduced the slope of its currency band in

April 2020 to allow for a weaker exchange rate. Lower interest rates also facilitated the deployment of large fiscal stimulus packages in the form of direct government spending, tax cuts and cash payments and others, although concerns that this may bring rise to debt sustainability risk in the future have been highlighted.

Reflecting the unequal impact of the pandemic across different sectors, equity market indices with a larger share of less contact-intensive sectors such as IT and telecommunications saw a stronger rebound compared to those with a large share of sectors with demand disrupted by the pandemic such as airlines and energy. IT and telecommunications companies also benefited from the changes in consumption behaviour associated with the “new normal” of remote working and social distancing which encouraged spending on new technologies. The disparity in performance across sectors means that some countries may recover at a faster rate than others.

The rise in travel restrictions, increase in trade disruptions and business closures, and plunging consumer demand contributed to oil price volatility in 2020. Along with disagreements among OPEC+ members on production cuts, oil prices dropped to below US\$20 per barrel in April, a decline of approximately 60% from February. In April, WTI crude price also turned negative for the first time briefly, primarily due to concerns on storage capacity. Nonetheless, as the cartel began to curb production starting in mid-April, oil prices began to see recovery shortly after. As oil and liquefied natural gas (LNG) remain as key exports for Brunei Darussalam, volatility in international oil and gas prices have a direct impact on the economic growth of the country, and in turn may have spillover effects on the financial sector.

In its January 2021 World Economic Outlook Update, the IMF projected a global growth of 5.5% in 2021 and 4.2% in 2022. However, the forecast rests on public health and economic factors that are uncertain and hard to

¹ As 27 December 2020, as reported in the World Health Organization's (WHO) COVID-19 Weekly Epidemiological Update.

² According to the IMF January 2021 World Economic Outlook Update.

predict. While some economic activities are on track to recover to pre-pandemic levels, recovery of the global economy remains fragile in light of the discovery of new virus strains, further lockdowns, and the lingering uncertainty relating to vaccine rollout, among other challenges.

1.2 Domestic Macroeconomic Developments

This section presents the assessment of domestic economic conditions with respect to economic growth, inflation, residential property price and automobile sales.

1.2.1 Economic Growth and Sectoral Performance

To address the impact of the COVID-19 pandemic, the government introduced a suite of measures³ focused on the following main components: -

1. Maintaining the well-being of the public;
2. Protecting jobs and providing support for individuals; and
3. Supporting and assisting businesses.

Due to the effective mitigation policies in place, Brunei Darussalam's economy saw a moderate 1.2% y-o-y growth in 2020, driven by the growth in the non-oil and gas sector of 9.0% with the expansion in downstream activities. Meanwhile, the oil and gas sector⁴ declined by 4.9% [Table 1].

Table 1. Trends in GDP and CPI: 2018-2020 (in BND million and percentage)

Year [in BND Million]	2018	2019	2020
Nominal GDP	18,300.7	18,375.0	16,578.6
Nominal Oil and Gas Sector	10,546.2	10,525.3	7,995.3
Nominal Non-Oil and Gas Sector	8,047.3	8,158.2	8,881.6
Real GDP	18,387.1	19,098.5	19,328.3
Real Oil and Gas Sector	10,492.3	11,007.5	10,360.2
Real Non-Oil and Gas Sector	8,242.3	8,451.9	9,333.4
Year [Year-on-Year Percentage Change]	2018	2019	2020
Real GDP	0.1	3.9	1.2
Real Oil and Gas Sector	-1.5	4.9	-4.9
Real Non-Oil and Gas Sector	2.1	2.5	9.0
Index	2018	2019	2020
Consumer Price Index [Jan 2015=100]	99.4	99.0	100.9
	Q4 2018	Q4 2019	Q4 2020
Residential Property Price Index [Q1 2015=100]	86.7	95.3	90.6

Source: Department of Economic Planning and Statistics (DEPS)

GDP Growth by Economic Sectors

The expansion of the non-oil and gas sector in 2020 was attributed to expansion of the non-oil manufacturing subsector particularly the production of petroleum and chemical products from downstream activities. Other sectors and subsectors that contributed to the growth included agriculture, forestry and fishery (11.7%); driven by growth in the livestock and poultry, and fishery; manufacturing of food and beverage products (20.9%); communication (15.9%); water transport (7.6%); and wholesale retail and trade (2.8%), among others.

Travel restrictions associated with the COVID-19 pandemic contributed to the increase in domestic retail activity in Q4 2020 with the retail sales index recording a y-o-y growth of 21.3%. However partial border closures and social distancing measures also contributed to the contraction of several subsectors including air transport (-75.8%); hotels (-18.4%); and restaurants (-4.9%).

On the other hand, the contraction in the oil and gas sector was due to the decline in the mining of crude oil, natural gas and the manufacturing LNG in line with the fall in global demand for energy commodities induced by the COVID-19 pandemic.

³For more details, please refer to <https://www.mofe.gov.bn/Shared%20Documents/MEASURES%20UNDERTAKEN%20BY%20THE%20GOVERNMENT%20IN%20HANDLING%20THE%20IMPACT%20OF%20COVID-19%20issued%2027.04.2020%20v7.pdf>

⁴Oil and Gas Sector comprises of Oil and Gas Mining and Manufacture of LNG.

1.2.2 Inflation, Residential Property Price Index and Automobile Sales

The overall Consumer Price Index (CPI) in 2020 rose to 100.9 (2015=100), a 1.9% increase compared to the previous year. The increase was attributed to a rise in both the food and non-alcoholic beverages index and the non-food index of 2.5% and 1.8% respectively and was mainly driven by the rise in price of miscellaneous goods and services (43.5%); food and non-alcoholic beverage (2.5%); and transport (11.4%).

In Q4 2020, the Residential Property Price Index⁵ (RPPI) recorded a 4.9% y-o-y decline to 90.6. In the midst of the pandemic in the first half of the year, the RPPI fell to 84.6 in Q2 2020, the lowest on record since the index was created in 2015. Q1 2020 also saw a dip in transactions, but activity picked up in the remainder of the year to reach the highest total number of yearly transactions on record at 504, a 10.5% increase from the previous year.

Automobile sales totaled 12,505 in 2020⁶, a 4.8% increase compared to the previous year. Brunei Darussalam was the only country in ASEAN to record a rise in automobile sales in 2020, with total automobile sales in the region recording a decline of 40.9% on the back of the collapse in consumer demand associated with the COVID-19 pandemic and the contraction in production of automobiles by 46.1%. As a leading economic indicator, the rise in automobile sales in the country was a positive signal for the economy and the financial sector for the coming quarters.

⁵The Residential Property Price Index (RPPI) measures the rate at which the prices of private residential properties purchased by households are changing over time. The RPPI is a useful macroeconomic indicator that can assess the state of the real estate market and can act as a financial stability/soundness indicator to measure risk exposure.

The RPPI computed for Brunei Darussalam excludes cash-based transactions, non-household transactions, the various Brunei Government national housing schemes and Brunei Government's/non-financial corporates' internal housing loan schemes for employees

⁶This figure is up to YTD Nov-20 only, according to data from the ASEAN Automotive Federation.

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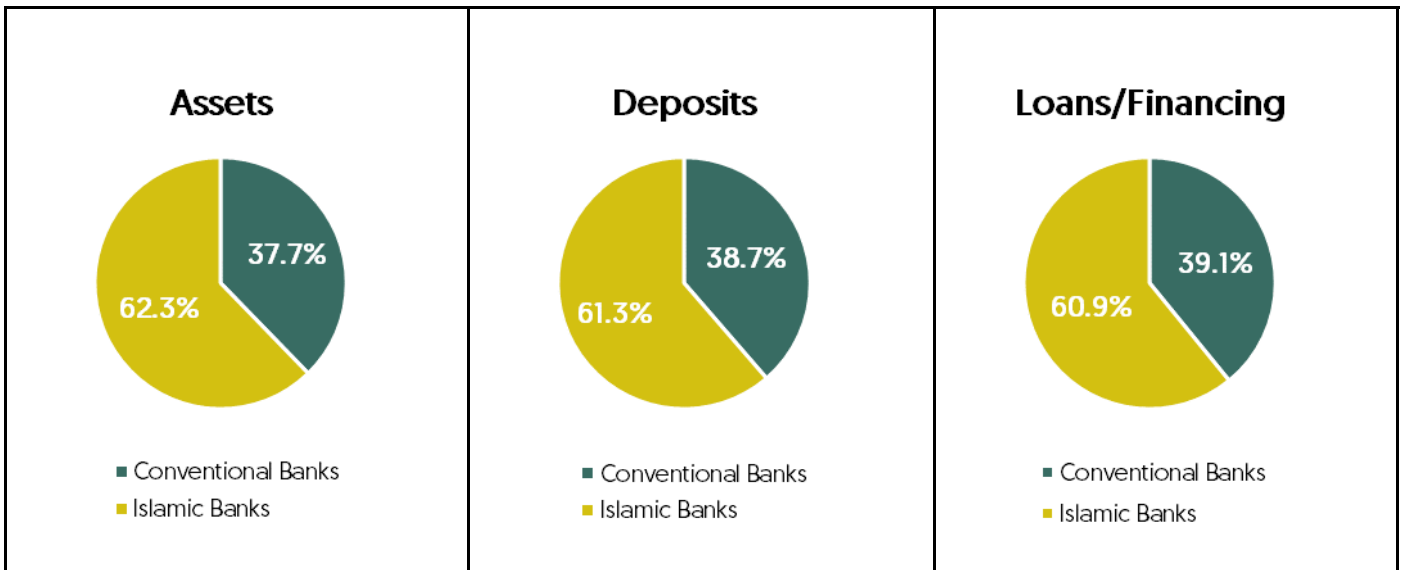
Banking Sector Developments

2.1 Balance Sheet Structure

As at year-end 2020, the Islamic bank and the Islamic trust fund continued to account for a major portion of total banking sector assets (62.3%), deposits (61.3%), and loans/financing (60.9%) as shown in Figure 1.

The overall assets, deposits and loans/financing of the banking industry declined by 2.6%, 7.6% and 1.1% respectively in 2020 compared to 2019. In terms of amount, these stood at BND18.3 billion, BND14.6 billion, and BND5.8 billion respectively (Figure 2).

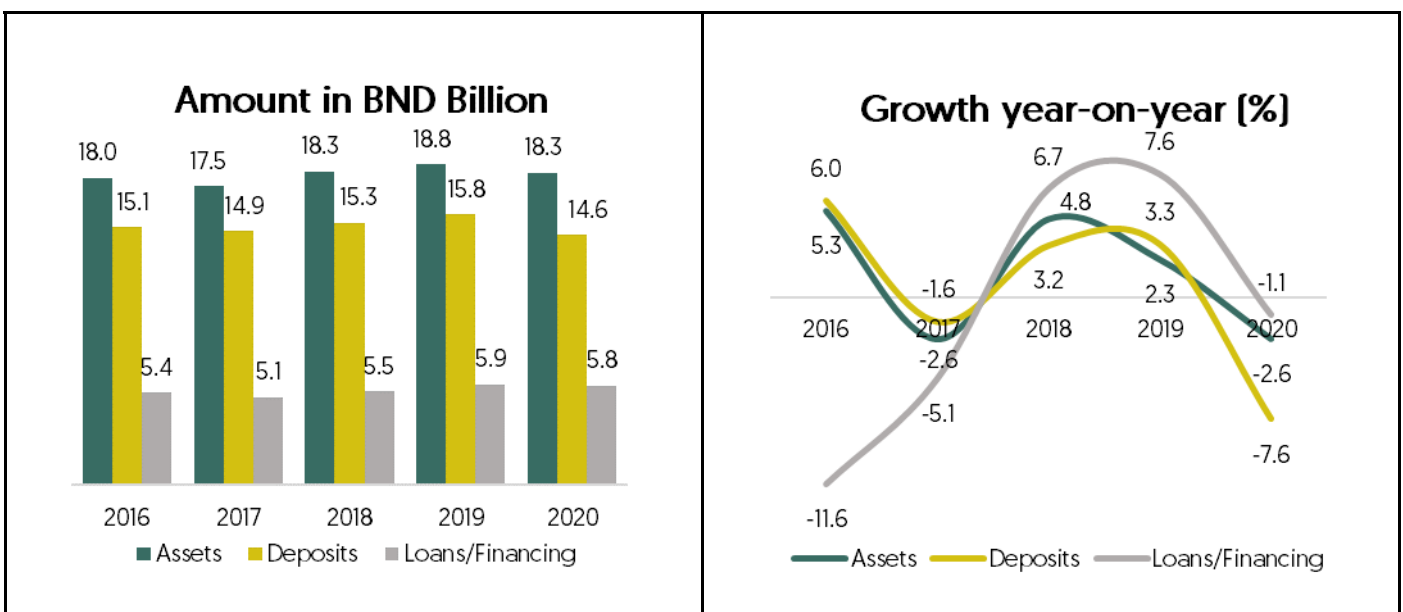
Figure 1. Market Share of Assets, Deposits and Loans/Financing: 2020 (in percentage)



Source: AMBD

Note: Islamic banks includes an Islamic Bank and an Islamic Trust Fund

Figure 2. Trends and Growth in the Assets, Deposits and Loans/Financing of the Banking Sector: 2016-2020 (in BND billion and percentage)



Source: AMBD

2.2 Assessment of Health

The health of the banking sector is assessed based on the following four categories:-

1. Capital Adequacy;
2. Credit Quality;
3. Income, Expenses and Profitability; and
4. Liquidity.

The following sections present the assessment on the health of the banking sector in the above four areas based on the financial soundness indicators in Table 2. This set of financial soundness indicators could indicate

the changes in the risk profile of the banking sector.

Capital Adequacy

In 2020, the capital position of the banks remained strong and stable where the Tier 1 Capital Adequacy Ratio [CAR] stayed at 20.5% as the previous year and the regulatory capital position slightly declined from 20.9% in 2019 to 20.8%. The CAR continued to be well above the minimum regulatory requirement of 10.0% set by AMBD and 8.0% set by Basel II on both solo and consolidated bases.

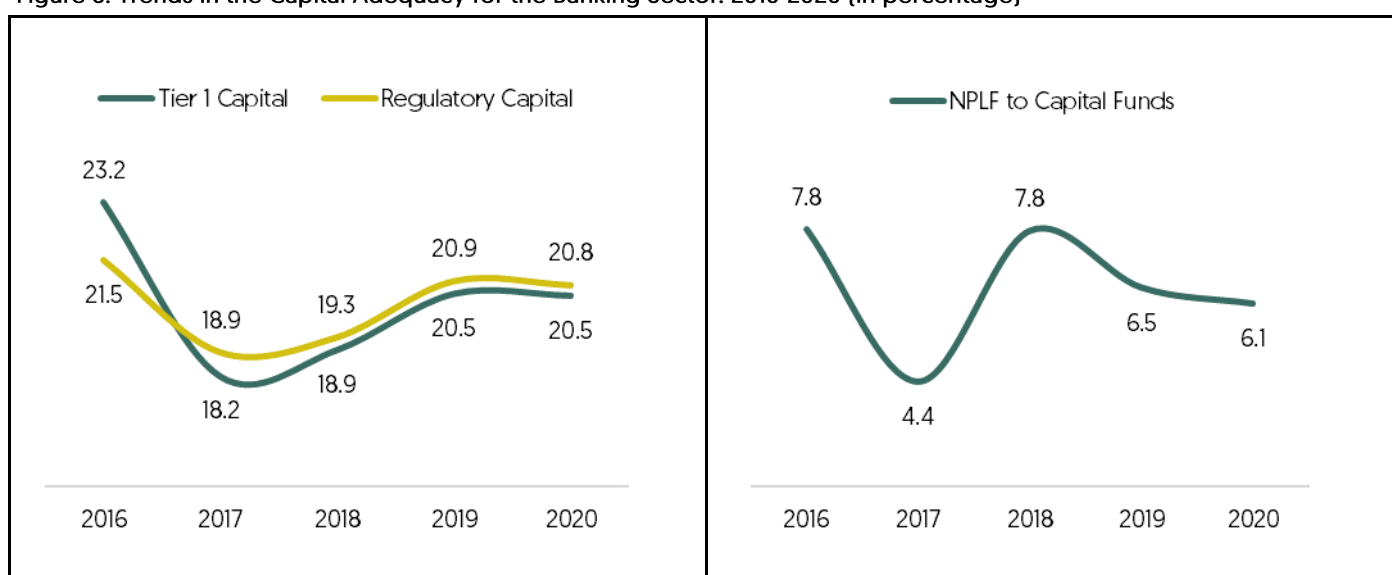
The banks' net NPLF (non-performing loans/financing) to capital ratio dropped to 6.1% from 6.5% in the previous year [Figure 3].

Table 2. Trends in the Financial Soundness indicators for the Banking Sector: 2016-2020 (in percentage)

Year	2016	2017	2018	2019	2020
Capital Adequacy					
Tier 1 Capital to Risk Weighted Assets	23.2	18.2	18.9	20.5	20.5
Regulatory Capital to Risk Weighted Assets	21.5	18.9	19.3	20.9	20.8
Non-Performing Loans/Financing (Net of Specific Provisions) to Capital Funds	7.8	4.4	7.8	6.5	6.1
Credit Quality					
Non-Performing Loans/Financing to Gross Loans/Financing	5.9	4.4	5.7	4.7	4.7
Net Non-Performing Loans/Financing to Gross Loans/Financing	3.3	1.6	2.9	2.4	2.4
Provision Coverage	43.3	62.8	49.5	48.1	48.2
Income, Expenses and Profitability					
Return on Assets (Before tax)	1.0	1.3	1.5	1.8	1.5
Return on Equity (After tax)	6.4	8.9	11.2	12.6	10.6
Efficiency Ratio	53.6	51.5	48.9	47.4	50.7
Liquidity					
Liquid Assets to Total Assets	50.4	51.0	51.7	46.8	48.2
Liquid Assets to Total Deposits	60.0	60.0	61.8	55.5	60.2
Liquid Assets to Demand and Savings Deposits (Non-bank customers)	115.0	115.2	126.0	102.9	95.9
Loans/Financing to Deposits Ratio	35.8	34.5	35.7	37.2	39.8

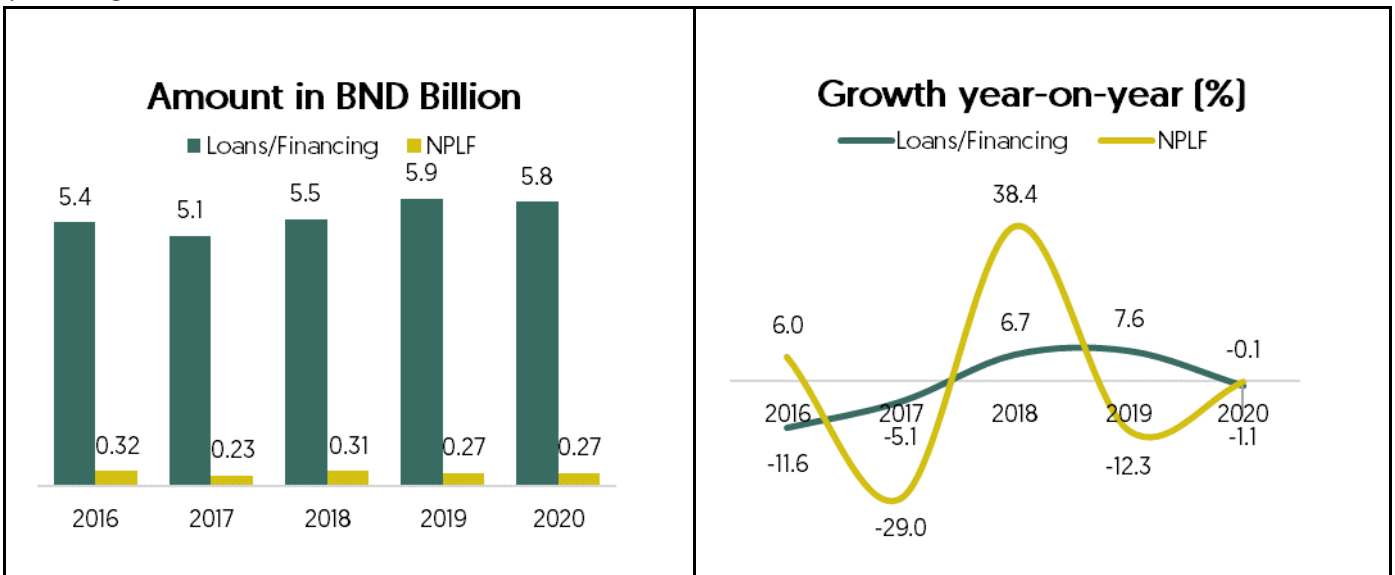
Source: AMBD

Figure 3. Trends in the Capital Adequacy for the Banking Sector: 2016-2020 (in percentage)



Source: AMBD

Figure 4. Trends and Growth in Loans/Financing and Gross NPLF for the Banking Sector: 2016-2020 (in BND billion and percentage)



Source: AMBD

Credit Quality

Overall credit declined by 1.1% in 2020 compared to 7.6% improvement in the previous year (Figure 4). Although the ratio of loans/financing to total deposits remained low as compared to ASEAN peers, indicating a low level of intermediation, the ratio improved marginally in 2020 to 39.8% due to a fall in deposits compared to the previous year.

Gross amount of NPLF slightly declined by 0.1% in 2020 mostly driven by the household sector (Figure 4). However, this was offset by the increase in NPLF for the corporate sector. Net amount of NPLF decreased by 0.4% from BND142.4 million in 2019 to BND141.9 million in 2020.

In 2020, the credit quality of the banks' loans/financing portfolio remained stable with the gross NPLF and net NPLF standing at 4.7% and 2.4% respectively, both below their respective 5-year average.

Provision coverage (specific provisions to total NPLFs) remained adequate in 2020 at 48.2% which was below the 5-year average of 50.4% (Figure 5). This was as a result of following the full implementation of the IFRS (International Financial Reporting Standard) 9 effective from 1 January 2018 where banks are no longer subject to any minimum regulatory allowance requirement and the loss allowances are computed based on their historical loss experience of their respective NPLF portfolios.

Income, Expenses and Profitability

Trends in Income and Yield

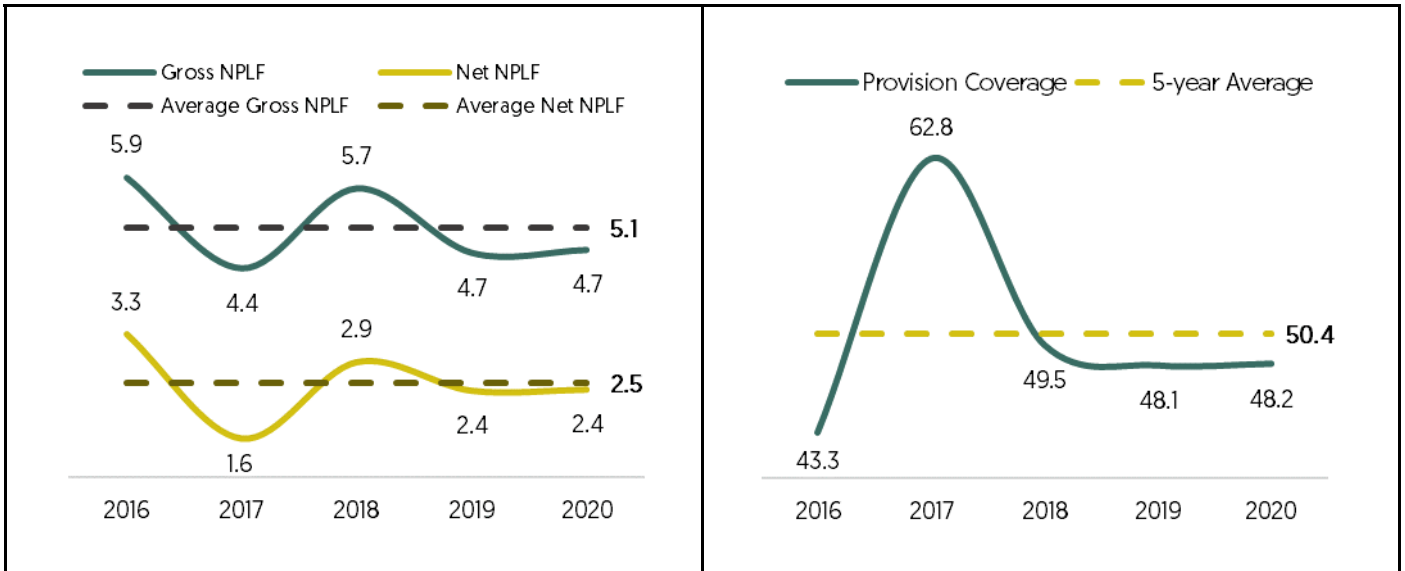
After increasing from 2017 to 2019 to a peak of 3.5%, the yield on total interest/profit related assets declined to 2.9% in 2020. The yield trend was commensurate with the total interest/profit income of the banking sector which declined in the same period to BND457.9 million in 2020, a significant decrease of 16.5% y-o-y (Figure 6).

The main source of gross income was the interest income from lending activities. As of 2020, the yield recorded its lowest in the 5-year period at 5.1%, a decline from 5.3% in the previous year.

Concurrently, both the interest/profit income and the yield on the placements declined. Interest/profit income on placements was BND86.2 million in 2020, a significant decrease of 47.9% y-o-y while its yield fell to 1.3% in 2020 compared to 2.2% in 2019.

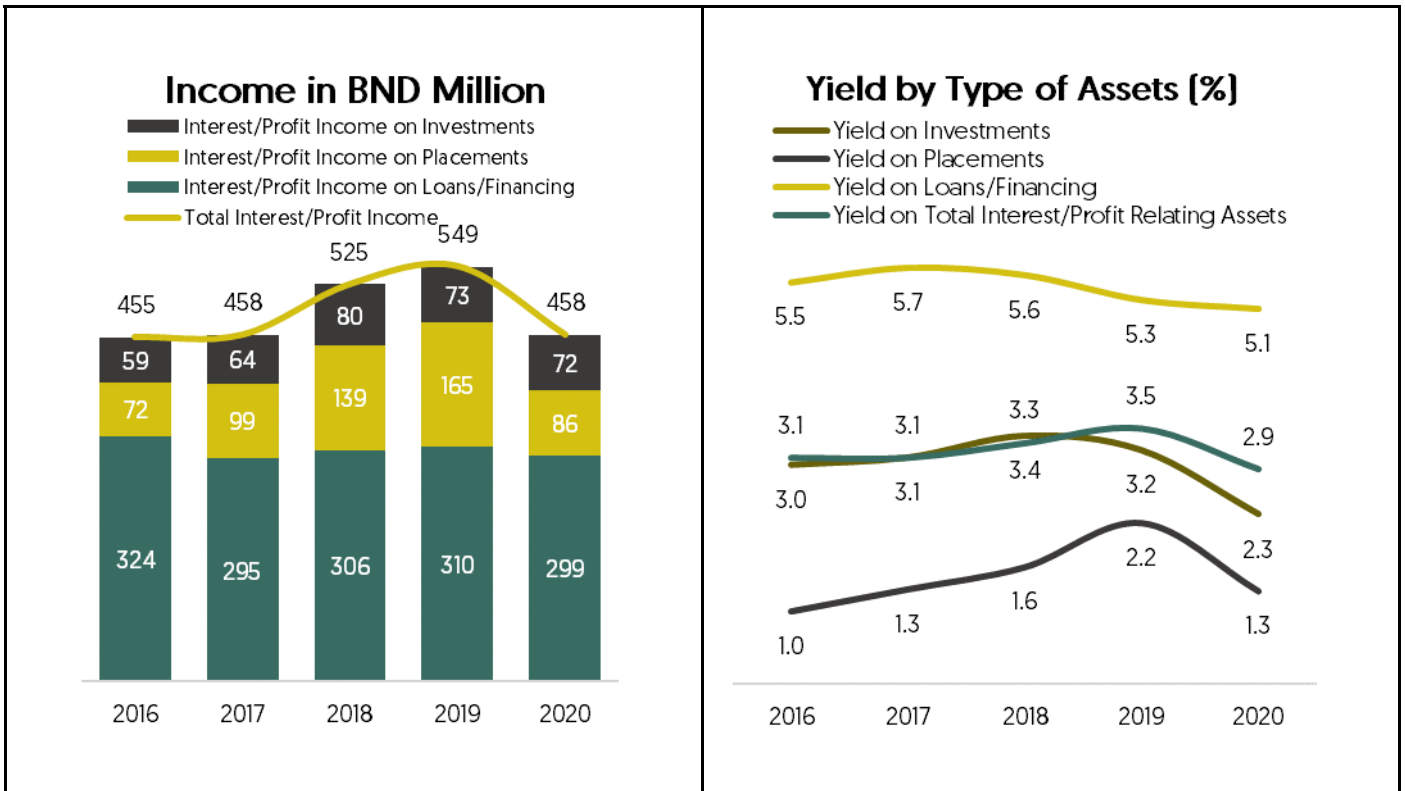
Yield on investments also declined from 3.2% in 2019 to 2.3% in 2020. Reflecting this drop, the interest/profit income on investments also fell by 1.5% y-o-y to BND72.3 million.

Figure 5. Trends in the Credit Quality for the Banking Sector: 2016-2020 (in percentage)



Source: AMBD

Figure 6. Trends in Income and Yields by Type of Assets: 2016-2020 (in BND million and percentage)



Source: AMBD

Trends in Profitability and Expenses

The banking sector's profitability saw a downward movement in 2020 where the banks' return on assets (ROA) and return on equity (ROE) fell to 1.5% and 10.6% respectively. Nonetheless, both were still above its 5-year average (Figure 7).

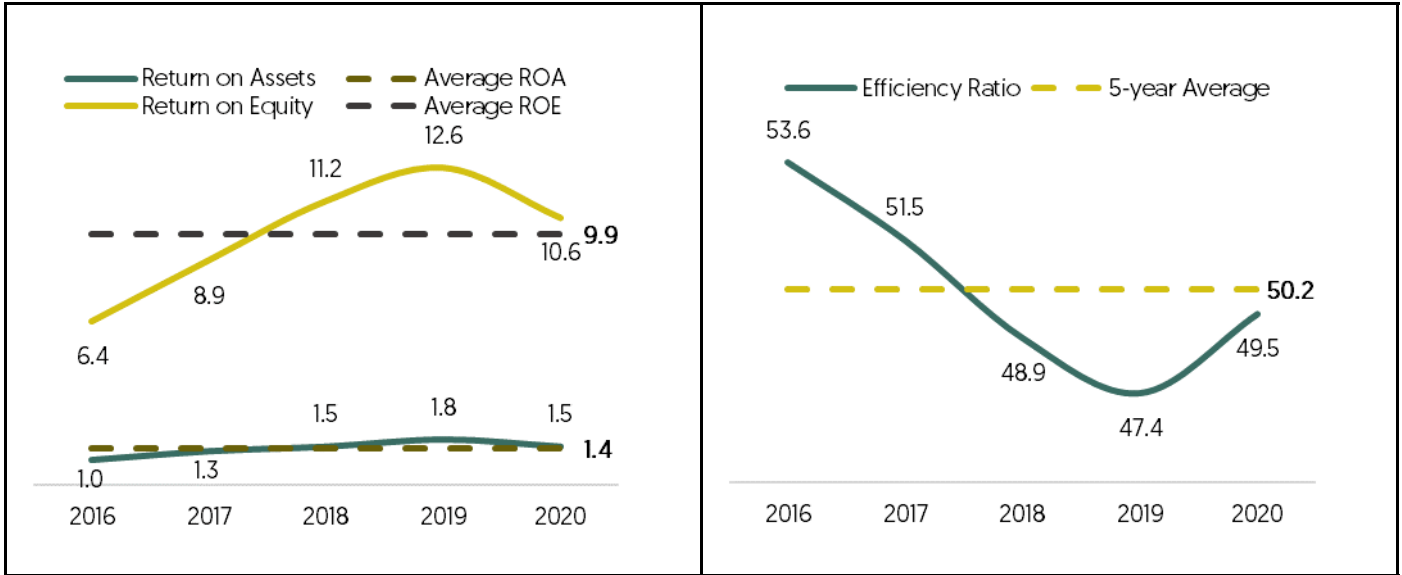
The efficiency of the banking sector as measured by non-interest/profit expenses to gross income increased to 49.5% in 2020 due to the decline in interest/profit income and operating income. Improvement in efficiency is encouraged through

further diversification of income sources other than loans/financing such as exploring more fee income or financial advisory businesses.

Trends in Net Interest/Profit Income

An important factor for the profitability of the banks is the magnitude of the net interest/profit spread measured by the differential of the lending/financing and deposit rates. At the same time, the average lending/financing rates by economic sectors indicate the magnitude of the interest burden of business and household borrowers.

Figure 7. Trends in the Profitability of the Banking Sector: 2016-2019 (in percentage)



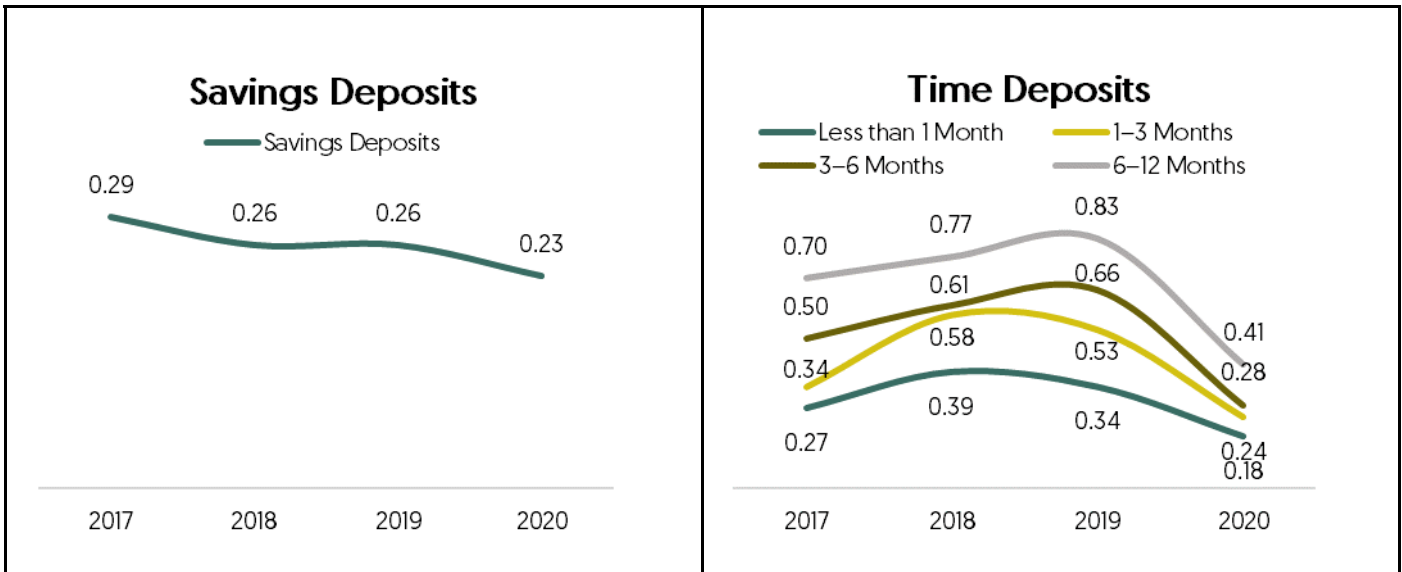
Source: AMBD

During the period 2017-2020, the interest/profit rates of saving deposits remained low and declined to 0.23% in 2020. The interest/profit rates of time deposits also declined during the same period for all types of maturity (Figure 8).

In the household sector, the average lending/financing rates of credit cards and residential housing declined in 2020 to 14.25% and 5.01% respectively whilst structural home improvement increased to 5.89% from the previous year (Table 3).

On the other hand, for the corporate sector, other than the transportation, infrastructure, tourism, and agriculture, the average lending/financing rates for other sectors had declined in 2020 compared to 2019. The financial sector had the lowest lending financing rate in 2020 at 3.39%, while the infrastructure sector had the highest rate at 9.01% (Table 3).

Figure 8. Trends in the Average Savings & Time Deposits Interest/Profit Rates of the Banking Sector by Maturity: 2017-2020 (in percentage)



Source: AMBD

Table 3. Average Lending/Financing Rates of Banks by Economic Sectors: 2017-2020 (in percentage)

Sector	2017	2018	2019	2020
Household Sector				
Personal	6.11	6.27	5.97	5.97
Credit Cards	14.15	14.39	14.28	14.25
Residential Housing	5.10	5.17	5.06	5.01
Structural Home Improvement	6.28	6.01	5.79	5.89
Corporate Sector				
Agriculture	5.31	5.53	5.14	5.61
Commercial Property	5.47	5.36	5.30	5.09
Financial	7.28	7.24	6.97	3.39
Infrastructure	6.42	6.69	6.06	9.01
Manufacturing	5.67	5.37	5.45	5.34
Services	6.38	5.86	5.96	5.87
Telecommunications & Information Technology	6.01	5.37	6.20	5.65
Tourism	5.94	5.81	5.80	6.14
Traders	6.13	5.84	5.83	5.61
Transportation	5.86	5.76	5.21	5.66

Source: AMBD

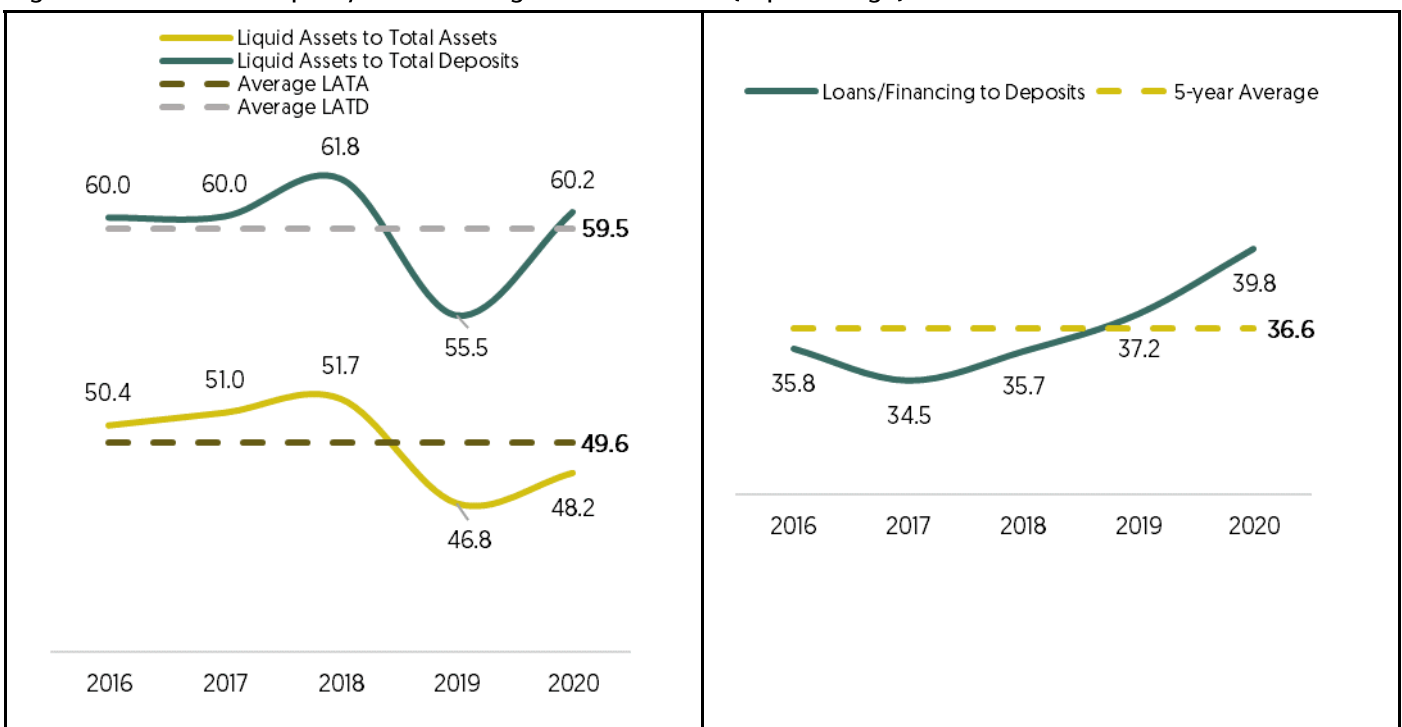
Liquidity

The banking sector continued to hold surplus liquid assets with the average Liquid Assets to Total Assets and Liquid Assets to Total Deposits for the 5-year period recorded at 49.6% and 59.5% respectively (Figure 9). The magnitude of these indicators were still considered high in comparison to ASEAN peers. This is an indication of low liquidity risk due to surplus liquidity in the banking sector arising out of low level of intermediation. As mentioned earlier, loans/financing to deposit ratio stood at 39.8% as of 2020, which was above the 5-year average of 36.6% (Figure 9).

2.3 Deposit Structure

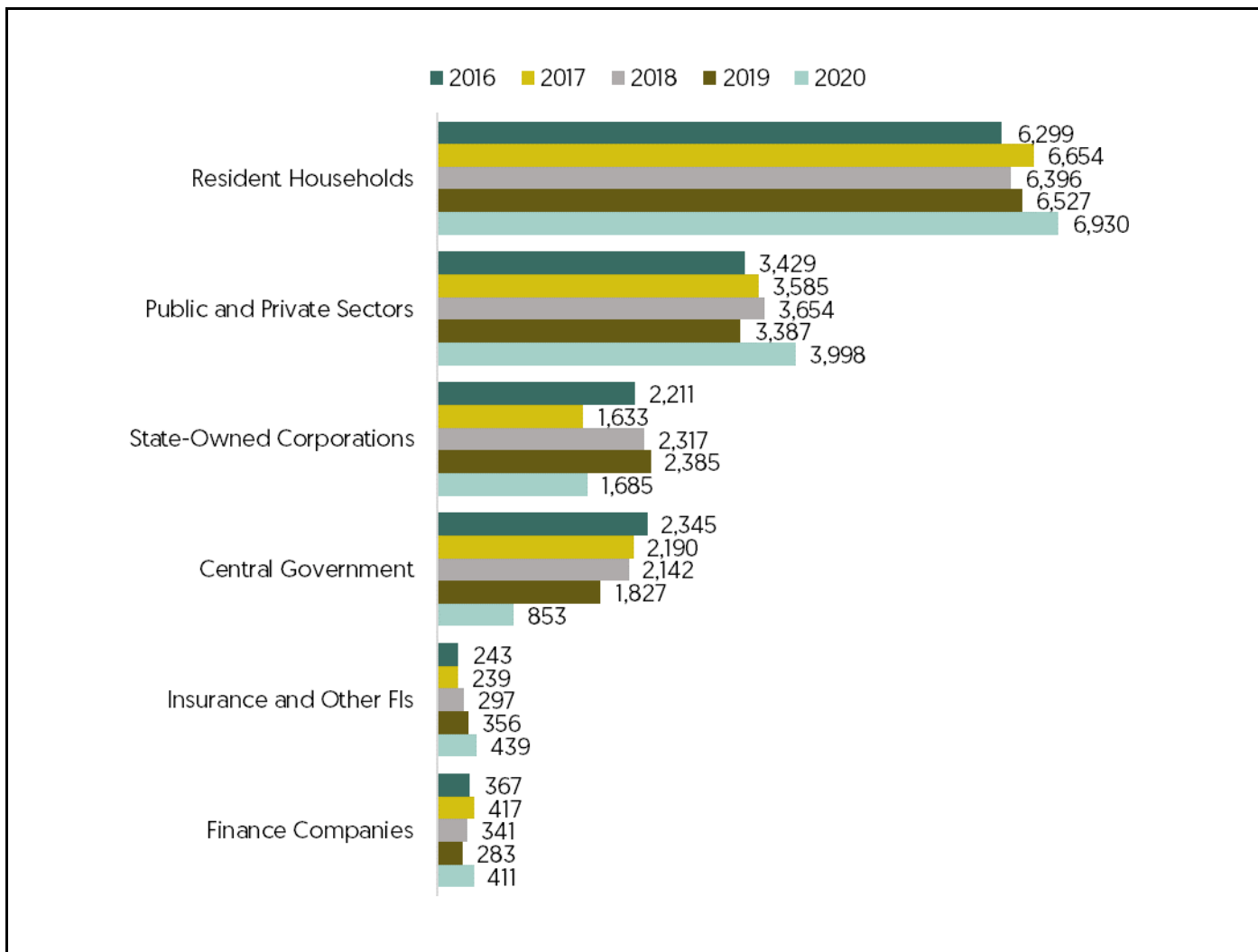
Deposits remained the primary source of bank funding representing 91.7% of total liabilities (excluding capital and reserves). In 2020, the decline in deposits of 7.6% (Figure 2) was driven by government deposits and state-owned corporations' deposits, while public and private sector deposits and residents' deposits increased by 18.0% and 6.2% respectively in 2020 (Figure 10).

Figure 9. Trends in the Liquidity of the Banking Sector: 2016-2020 (in percentage)



Source: AMBD

Figure 10. Trends in Residents' Deposit Structure by Ownership: 2016-2020 (in BND million)



Source: AMBD

Note:

1. Central government deposits include AMBD deposits.
2. Deposit does not include banks' deposits and non-residents' deposits.

Resident household deposits accounted for the highest share, contributing 48.4% of the total deposits in the banking sector. This indicated the significant contribution of the household or retail sector in Brunei Darussalam which formed the core deposits and a stable source of funds for the banking sector.

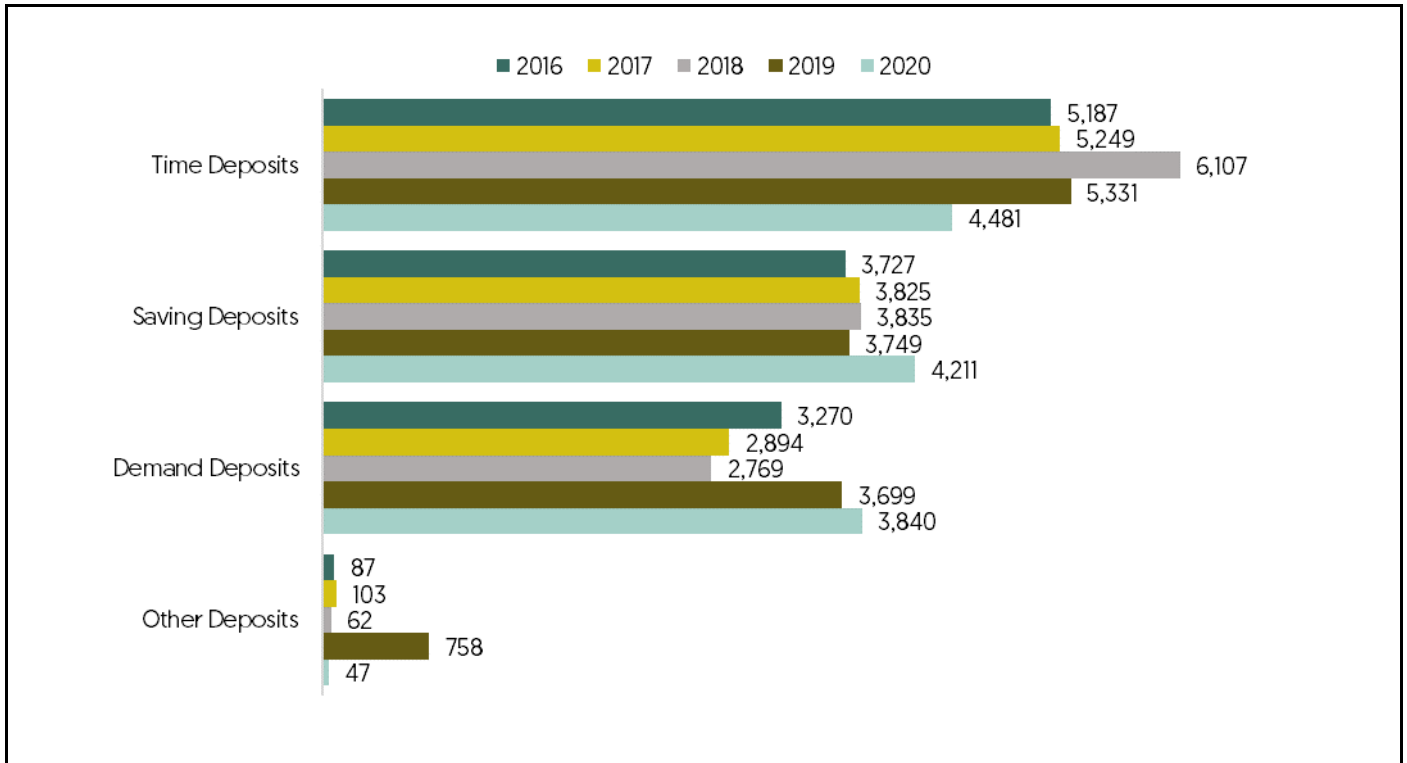
During 2020, both Brunei Dollar (BND) and Foreign Currency (FCY) deposits recorded negative growth at 2.6% and 5.6% respectively as compared to the previous year. Of total BND deposits by holders in Brunei Darussalam, time deposits made up 34.7% forming the relatively stable funding base of the banking system (Figure 11).

However, the total time deposits had declined by 18.0% in 2020. In contrast, demand deposits (representing 31.0% of total BND deposits by holders in Brunei Darussalam) recorded a growth of 4.0% and saving deposits (representing 34.0% of total BND deposits by holders in Brunei Darussalam) also increased by 12.4% during the year (Figure 11).

This could indicate preference to hold liquidity during the COVID-19 pandemic.

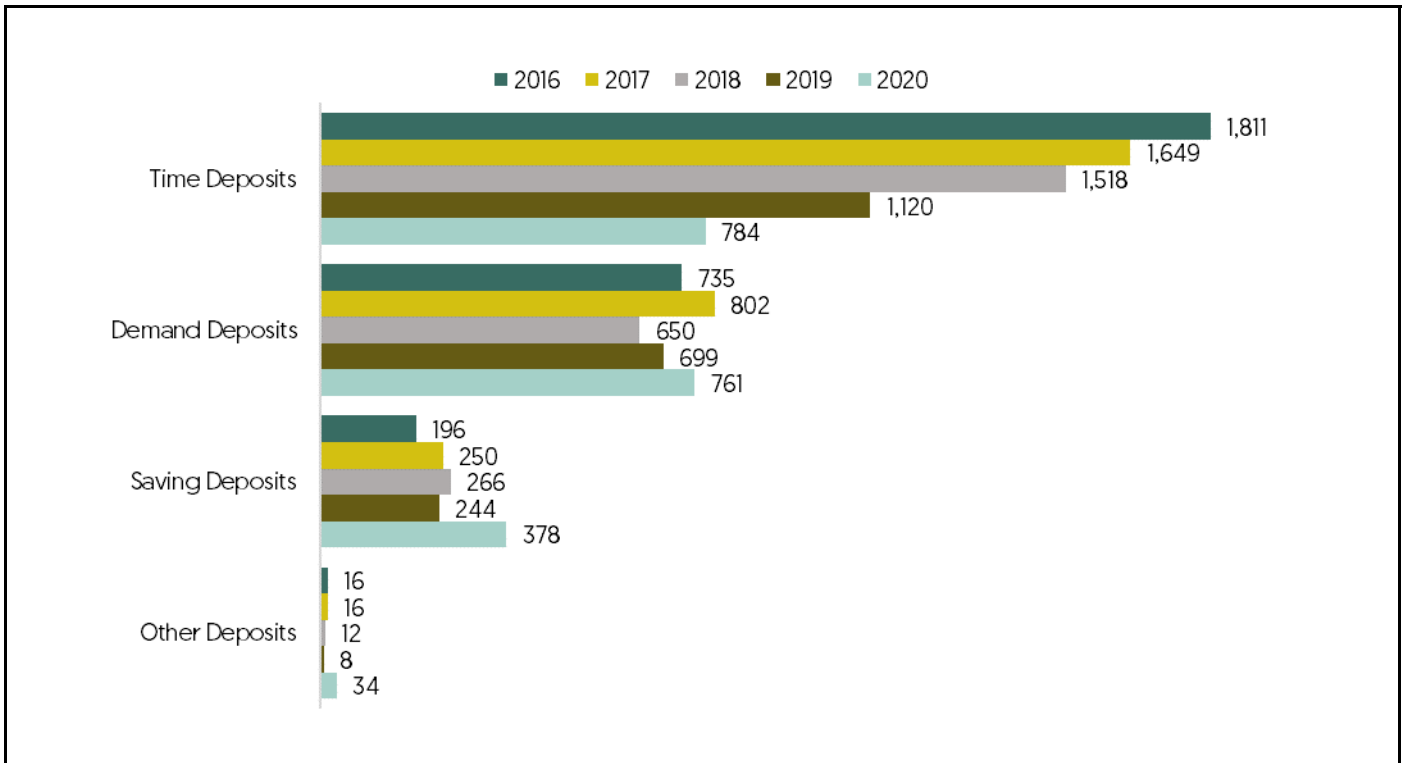
FCY deposits accounted for only 13.4% of total deposits of the banking sector. About 40.1% of FCY deposits in Brunei Darussalam were in time deposits and a decline of 30.2% was recorded in 2020. Demand deposits which represented 38.9% of total FCY deposits expanded by 9.1% and saving deposits which accounted for 19.3% of total FCY deposits also increased by 55.1% (Figure 12).

Figure 11. Trends in BND Deposits by Holders in Brunei Darussalam by Type of Deposits: 2016-2020 (in BND million)



Source: AMBD

Figure 12. Trends in FCY Deposits by Holders in Brunei Darussalam by Type of Deposits: 2016-2020 (in BND million)



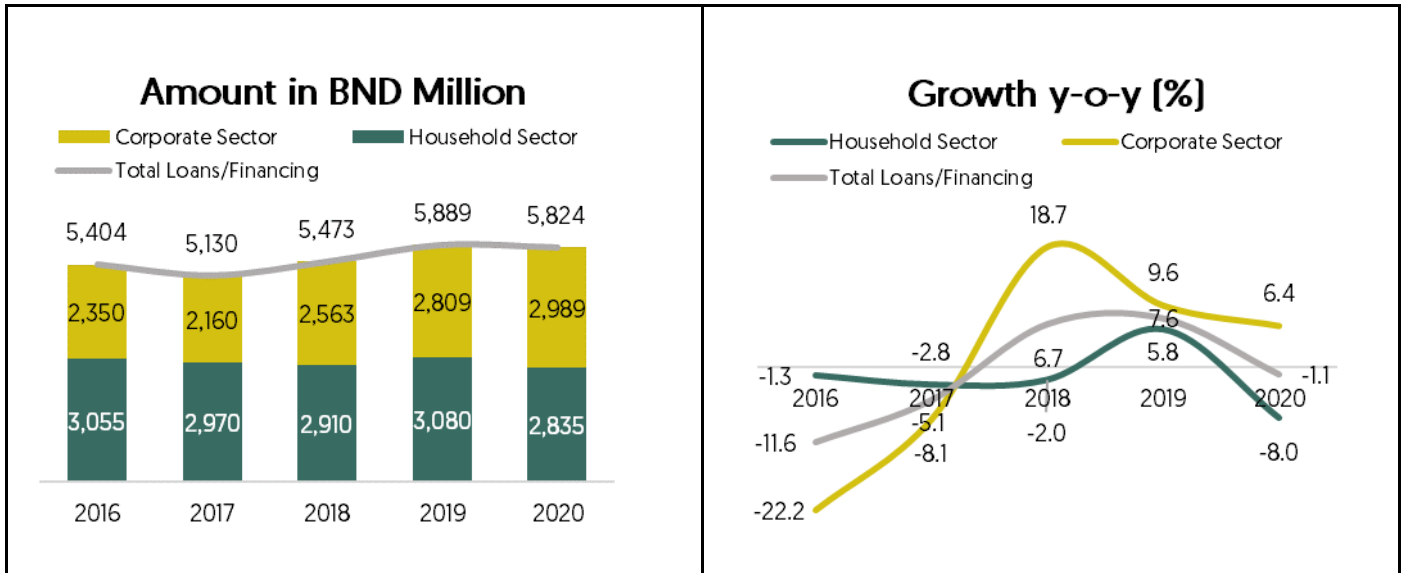
Source: AMBD

2.4 Lending/Financing Portfolio

The loan/financing portfolio of the banking sector declined by 1.1% in 2020 primarily driven by household sector lending, which contracted by 8.0% in 2020. On the other hand, the business sector lending/financing recorded a growth of 6.4% during the same period [Figure 13].

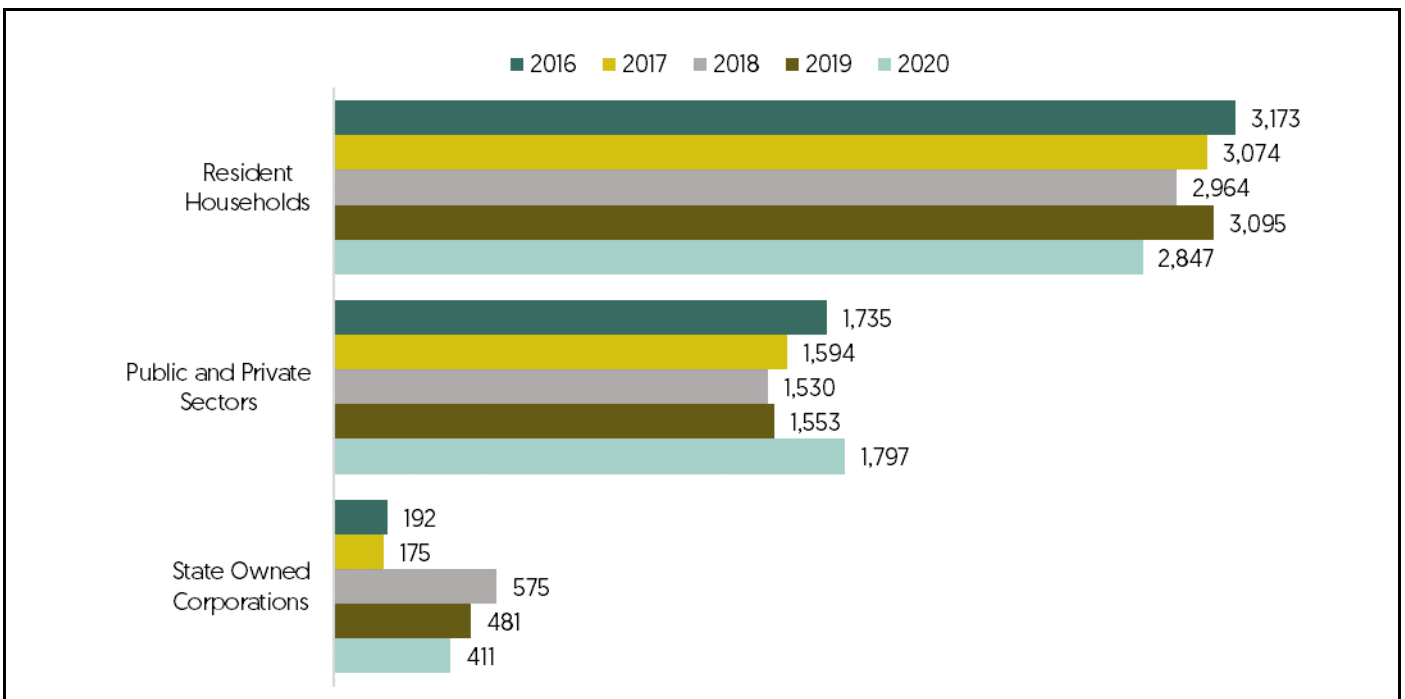
Banks' loans/financing were primarily extended to Brunei residents which stood at 90.0% while non-resident lending/financing accounted for the remaining 10.0% of total loans/financing, hence limiting the risks of exposure to foreign lending. Lending to Brunei residents declined by 1.8% in 2020, while lending/financing to non-resident recorded a growth of 5.7% in the same period.

Figure 13. Trends and Growth of the Total Loans/Financing: 2016-2020 (in BND million and percentage)



Source: AMBD

Figure 14. Trends in Residents' Loans/Financing Structure by Ownership: 2016-2020 (in BND million)



Source: AMBD

The resident banking sector's lending portfolio of BND5.1 billion consisted of 56.3% in resident household loans/financing, 35.5% to public and private sectors, with the remaining 8.1% extended to state-owned corporations (Figure 14).

2.4.1 Loans/Financing to Household Sector

In 2020, the business sector dominated the overall credit portfolio which stood at 51.3% in Brunei Darussalam. Unlike the past years, this trend has shifted due to a decline of 8.0% in total credit to the household sector in 2020 compared to the previous year (Table 4). The business sector continues to expand where a 6.4% growth was recorded in 2020, mainly contributed by manufacturing and financial sectors.

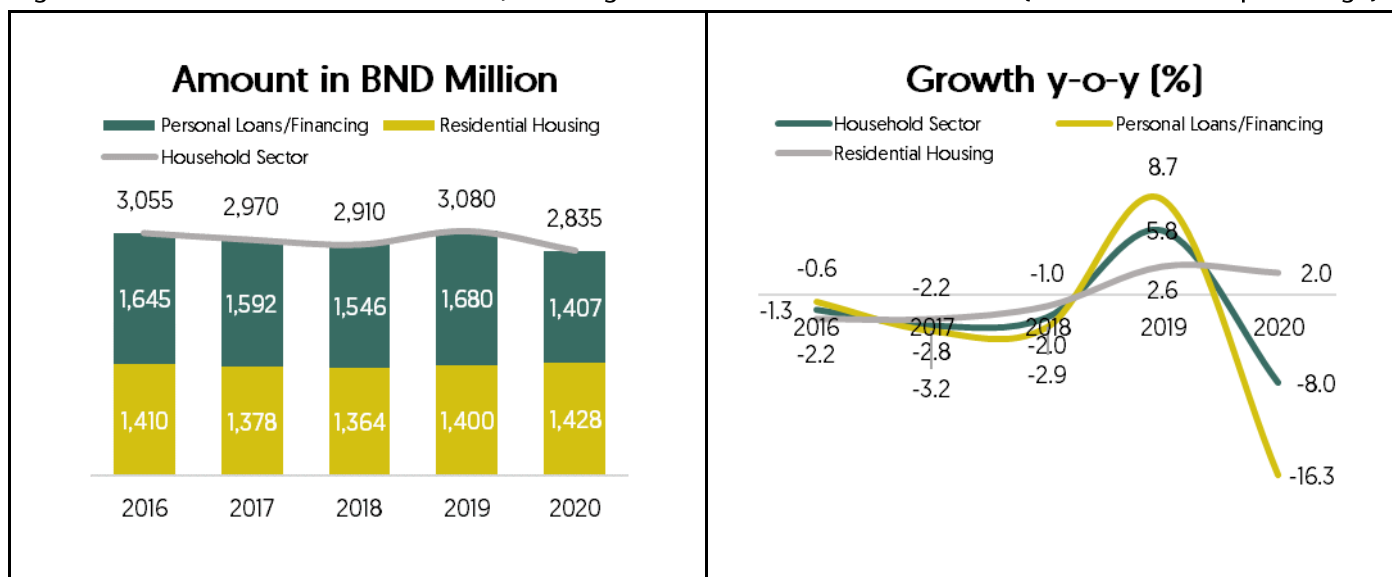
The contraction in the total credit to the household sector in 2020 was due to weaker consumer demand stemming from the impact of travel restrictions related to the COVID-19 pandemic. This significantly reduced overseas leisure spending and salaried household income particularly in the private sector due to lower business income. These adverse impacts were highly notable in the personal loan subcategories such as general consumption (15.7% decline); home improvement (38.8% decline); and credit cards (14.8% decline). On the contrary, loans/financing for residential housing recorded an expansion of 2.0% in 2020 mainly due to a 5.7% increase in housing purchase.

Table 4. Demands for Loans/Financing by Economic Sectors: 2018-2020 (in BND million)

Sector	2018		2019		2020	
	amount	% of total	amount	% of total	amount	% of total
Household Sector	2,910	53.2	3,080	52.3	2,835	48.7
Personal Loans/Financing	1,546	28.2	1,680	28.5	1,407	24.2
Residential Housing	1,364	24.9	1,400	23.8	1,428	24.5
Corporates Sector	2,563	46.8	2,810	47.7	2,989	51.3
Agricultural	24	0.4	26	0.4	35	0.6
Commercial Property	468	8.6	754	12.8	743	12.8
Financial	58	1.1	116	2.0	184	3.2
Infrastructure	39	0.7	40	0.7	44	0.8
Manufacturing	250	4.6	305	5.2	502	8.6
Services	708	12.9	697	11.8	767	13.2
Telecom & IT	13	0.2	13	0.2	6	0.1
Tourism	39	0.7	37	0.6	35	0.6
Traders	390	7.1	398	6.8	347	6.0
Transportation	573	10.5	424	7.2	326	5.6
Total Loans/Financing	5,473	100	5,889	100	5,824	100

Source: AMBD

Figure 15. Trends and Growth of Total Loans/Financing in the Household Sector: 2016-2020 (in BND million and percentage)



Source: AMBD

2.4.2 Loans/Financing to Business Sector

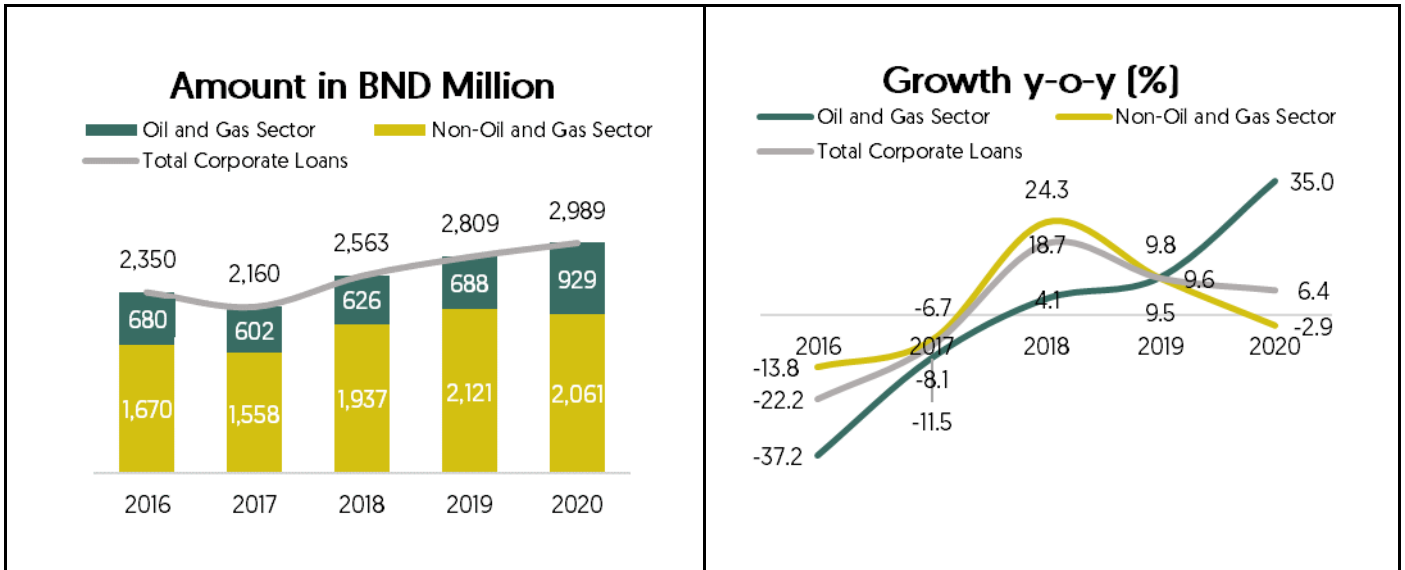
The non-oil and gas sector in Brunei Darussalam plays a vital role to the country's economic developments especially in its diversification efforts and is a good indicator of macroeconomic conditions in the country outside the oil and gas sector. Figure 16 shows that the credit extended to the non-oil and gas sector accounted for 68.9% of total business credit as of 2020.

The key sectoral exposures in the business lending/financing portfolio were services (13.2%); commercial property (12.8%); manufacturing (8.6%); and traders (6.0%) [Table 4].

Bank lending/financing to the business sector remained relatively strong, with an expansion of 6.4% in 2020.

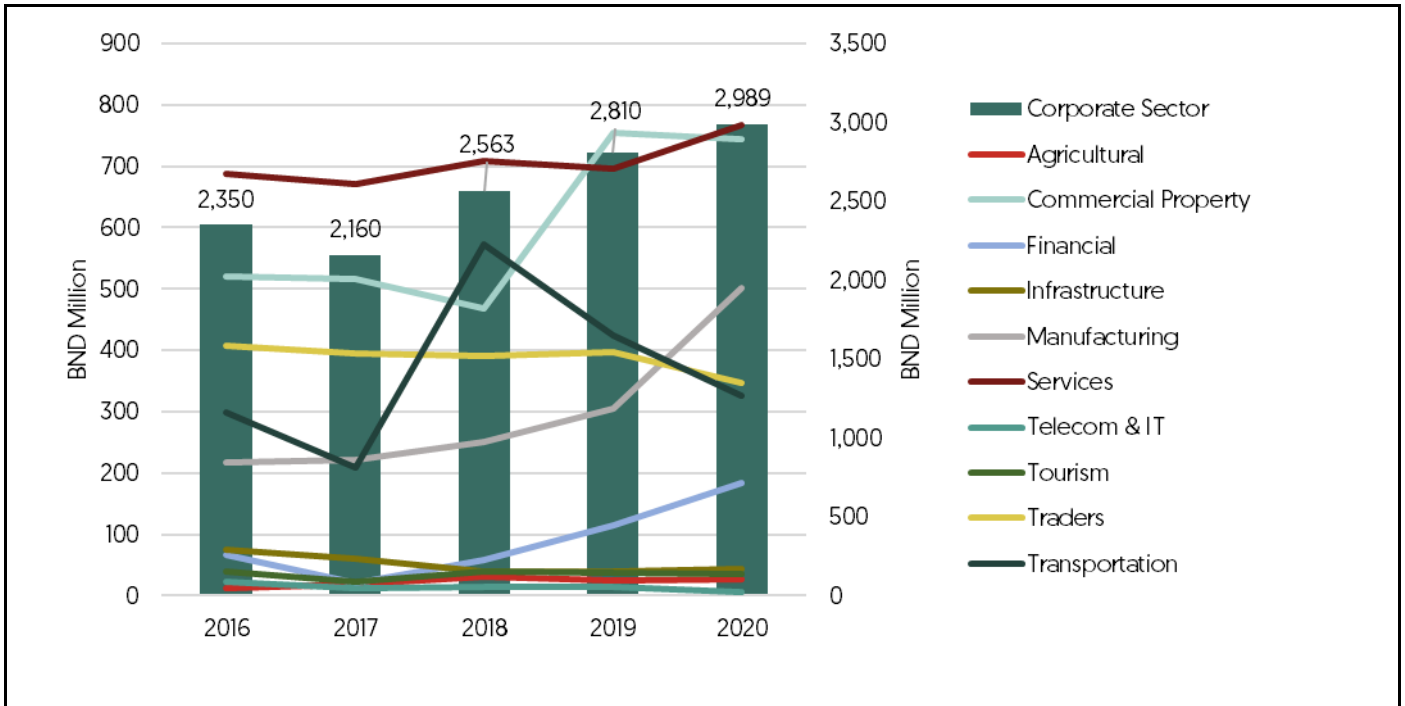
This, however, was at a slower pace compared to the previous year [2019: 9.6%]. Hence, the growth in total loan/financing was largely attributed to the growth in credit to the business sector. The expansion was primarily driven by the manufacturing, financial and services sectors. Loans to these sectors expanded by 64.5% to BND501.8 million, 59.7% to BND184.5 million and 10.0% to BND34.8 million respectively, in comparison to the previous year. The credit growth of other sectors such as agricultural and infrastructure also increased in 2020 by 33.7% and 9.4% respectively compared to 2019 [Figure 17].

Figure 16. Trends and Growth of Loans/Financing in the Oil and Gas and Non-Oil and Gas Sectors: 2016-2020 (in BND million and percentage)



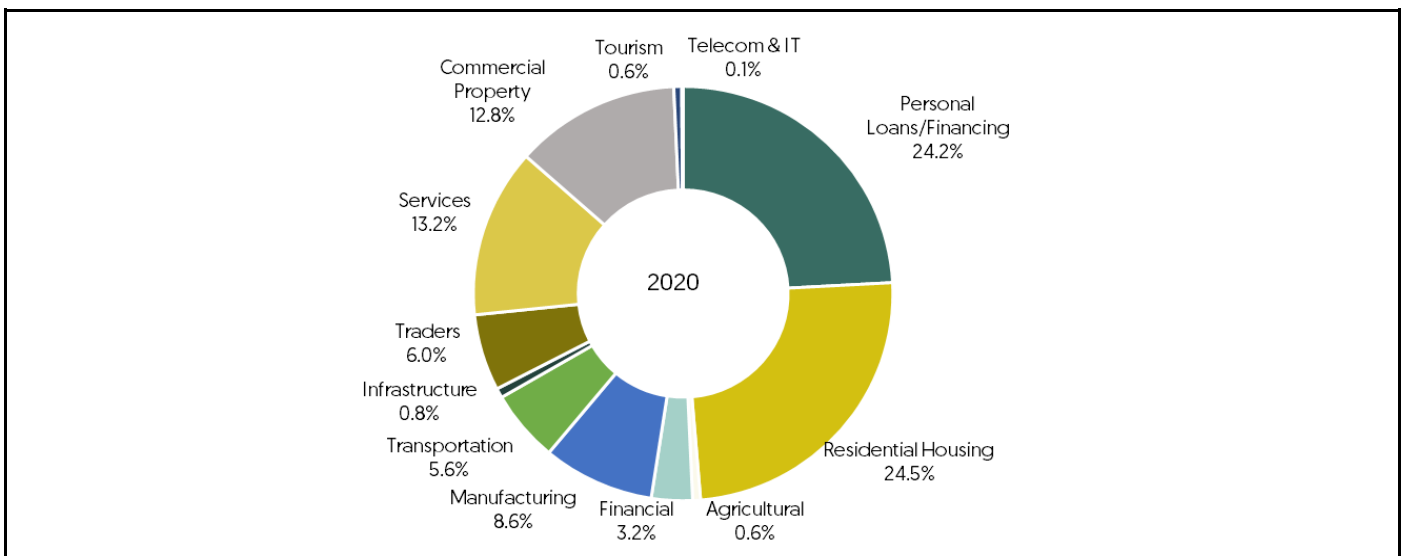
Source: AMBD

Figure 17. Trends in Business Sector Loans/Financing in Brunei Darussalam: 2016-2020 (in BND million)



Source: AMBD

Figure 18. Proportion of Loans/Financing of Banks in Brunei Darussalam by Economic Sectors: 2020 (in percentage)



Source: AMBD

2.5 Credit Quality Risks

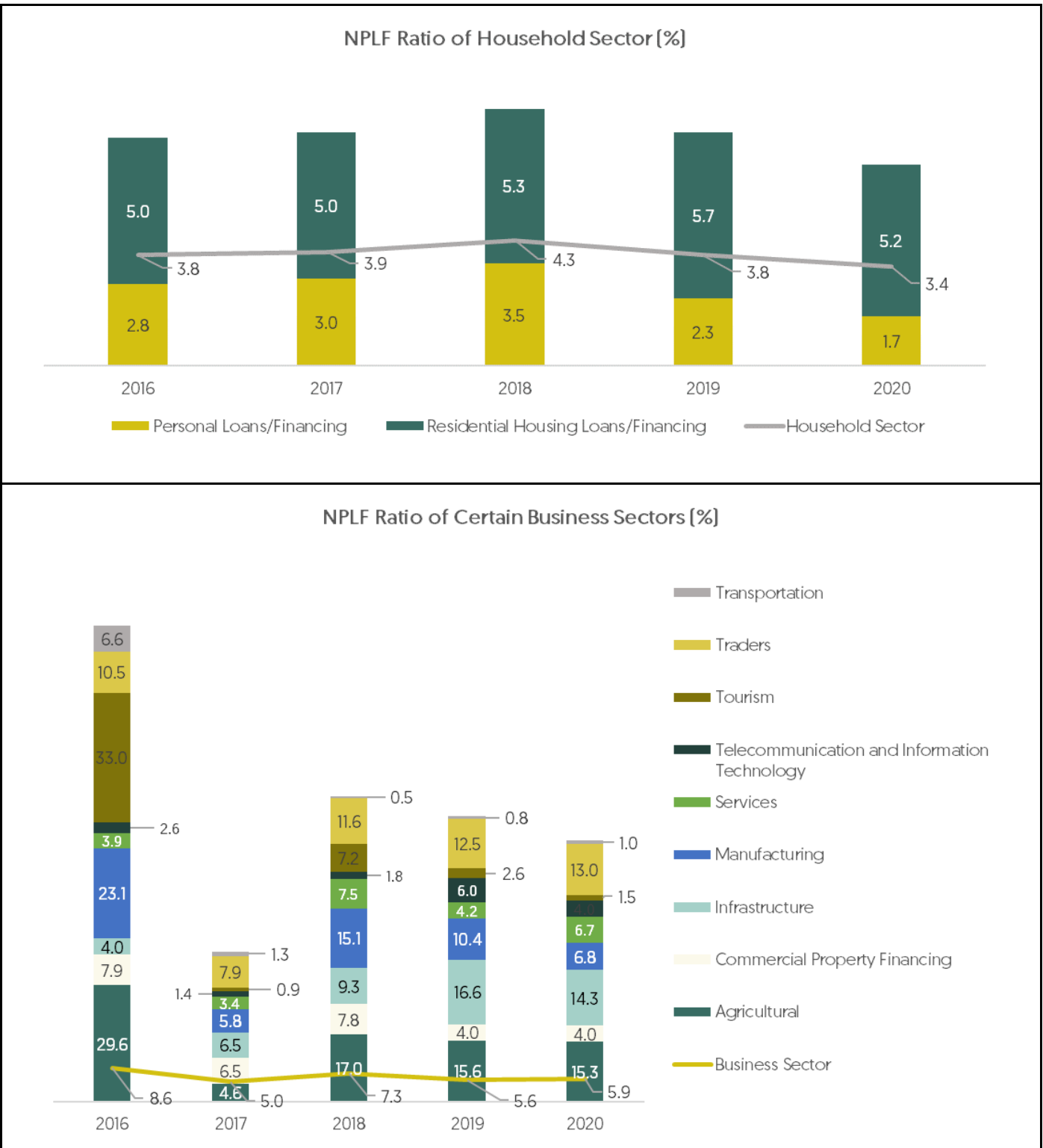
In 2020, overall credit quality measured by NPLF ratio rose marginally to 4.70% from 4.65% in 2019. This was due to the rise in NPLF ratio of the business sector from 5.56% in 2019 to 5.89% in 2020, while the NPLF ratio of the household sector declined to 3.45% from 3.83% in 2019 (Figure 19).

As illustrated in Figure 20, the decline in NPLF ratio of the household sector was attributed to the decline in both the NPLF ratio in personal loans/financing and

residential housing loans/financing.

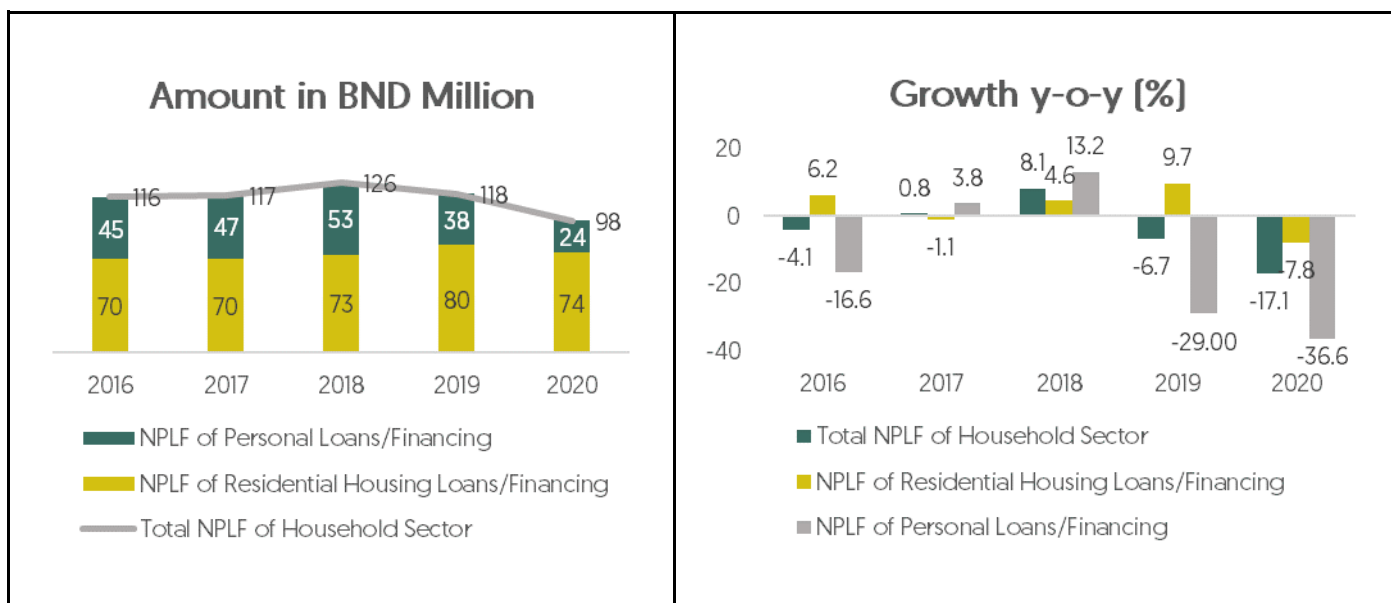
The trend of credit quality in 2020 was also influenced by the introduction of the temporary regulatory relief measures to the banking sector in April 2020 in light of the far-reaching impacts of the pandemic. Hence, the true impact of COVID-19 on NPLF figures may only be apparent after the expiration of the relief measures. For more details, please refer to *Special Studies 4.1: Securing Financial Stability during COVID-19 Situation in Brunei Darussalam*.

Figure 19. Trends in NPLF Ratio in the Household & Business Sector: 2016-2020 (in percentage)



Source: AMBD

Figure 20. Trends and Growth of Non-Performing Loans/Financing in the Household Sector: 2016-2020 (in BND million and percentage)



Source: AMBD

2.6 Offshore Assets Risk

In 2020, offshore assets as a share of total assets increased to 53.8% after a slight decline in the previous year. Despite a marginal increase in loans/financing to deposit ratio in 2020 (Figure 2), the level of bank

intermediation remains low in the country as banks continue to place their excess liquidity offshore as illustrated in Table 5.

Table 5. Distribution of Total Offshore Assets by Type of Instruments: 2016-2020 (in BND million)

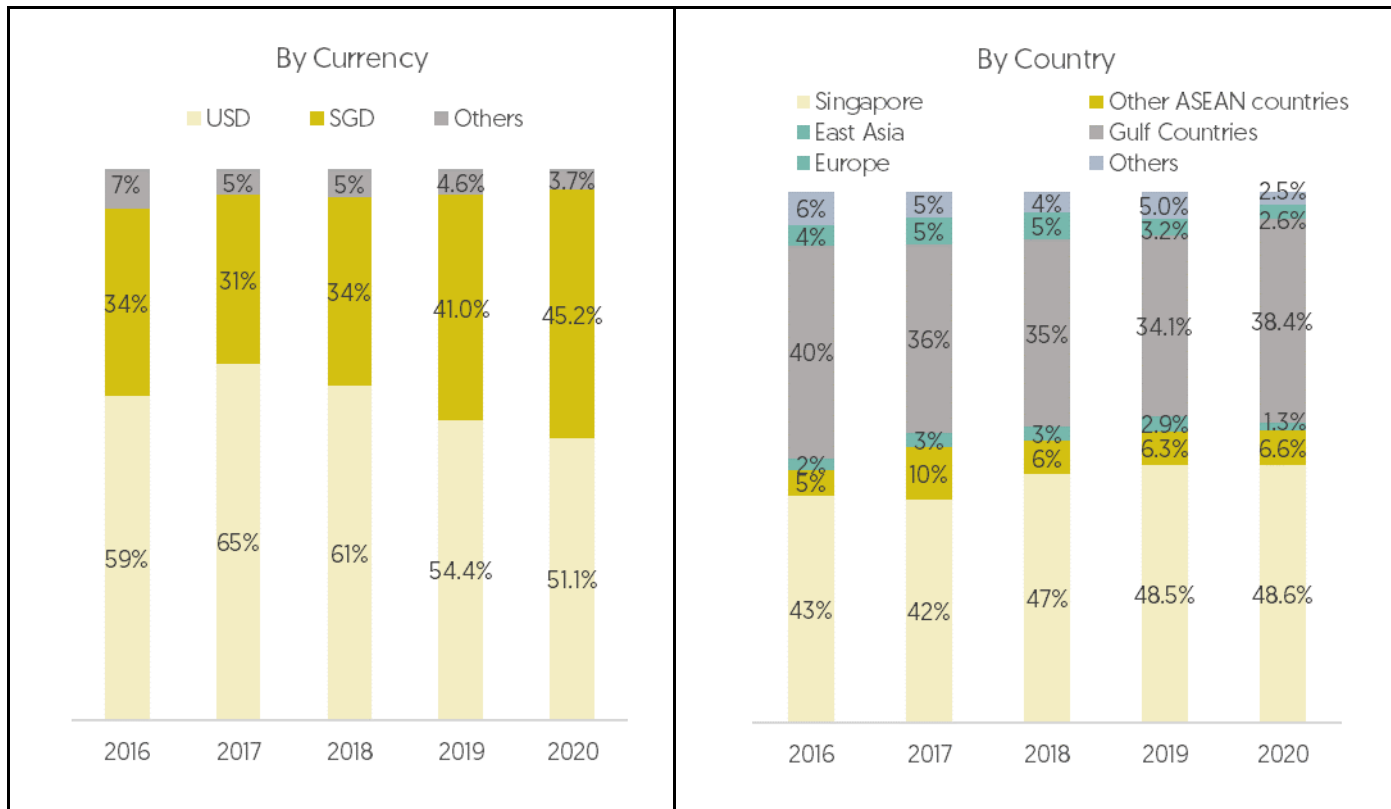
Instruments	2016		2017		2018		2019		2020	
	Amount	% of total assets	Amount	% of total assets	Amount	% of total assets	Amount	% of total assets	Amount	% of total assets
Placements	7,164.9	40.0	7,122.9	40.7	7,854.4	42.9	7,042.7	37.5	6,030.9	33.0
Investments	1,543.8	8.6	1,878.5	10.7	1,848.8	10.1	1,781.4	9.5	2,571	14.1
Foreign Govt/ Treasury Securities	106.5	0.6	200.8	1.1	186.1	1.0	254.4	1.4	798.2	4.4
Share and Unit Trusts - publicly listed	0.2	0.0	0.2	0.0	0.1	0.0	0.0	0.0	72.4	0.4
Share and Unit Trusts - not listed	10.2	0.1	1.5	0.0	2.1	0.0	1.8	0.0	1.4	0.0
Debt Securities	1,156.5	6.6	1,450.0	8.3	1,386.2	7.6	1,402.9	7.5	1,577.1	8.6
Other Securities	307.9	1.7	251.2	1.4	279.5	1.5	123.3	0.7	123.5	0.7
Provision for decline in value of investments	-37.5	-0.2	-25.2	-0.1	-5.3	0.0	-0.6	0.0	-1.9	0.0
Loans/Financing	78.2	0.4	104.0	0.6	193.6	1.1	552.2	2.9	582.9	3.2
Balances with Banks and Financial Institutions Abroad (Nostro Account)	282.2	1.6	446.9	2.6	333.1	1.8	413.8	2.2	641.8	3.5
Total Offshore Assets	9,061.1	50.6	9,552.4	54.6	10,229.9	55.9	9,790.5	52.2	9,826.7	53.8
Total Assets	17,918.4	100.0	17,484.1	100.0	18,328.3	100.0	18,758.8	100.0	18,272.5	100.0

Source: AMBD

Currency Risk

Figure 21 presents the trends in the offshore placements and investments of the banks in Brunei Darussalam by currency and country/region.

Figure 21. Trends in Composition of Offshore Placements and Investments by Currency and Country/Region (in percentage)



Source: AMBD

Offshore placements and investments continued to be dominated by two major currencies- the US dollar (USD) and the Singapore dollar (SGD).

In 2020, the share of offshore placements and investments in SGD continued to increase steadily to 45.2%. The increase in the share of offshore placements and investments in SGD was also indicative of a moderation in currency risk due to the one-to-one parity of the Brunei dollar with the Singapore dollar. Nonetheless, uncertainty continued to persist due to the low global interest rate environment in 2020 including the three-month Singapore Interbank Offered Rate (SIBOR), as central banks around the world cut interest rates in response to the COVID-19 pandemic. Global interest rates are expected to remain at low levels in the near future, with implications to banks' profitability through compressed margins.

The remaining proportions of other currencies including the Euro, the British Pound, the Malaysian Ringgit and the Australian Dollar continued to decline collectively to 3.7% in 2020.

Country Risk

The share of offshore assets by country remained

unchanged from 2019 with Singapore claiming the largest share at 48.6%; followed by Gulf Countries at 38.4%; and other ASEAN countries at 6.6%. Offshore assets in Singapore faced higher market risk due to the

decline in Singapore's GDP by 5.8% y-o-y in 2020.

The increased exposure to Gulf Countries- dominated by assets in United Arab Emirates (UAE) and Saudi Arabia may be attributed to the limited availability of Syariah-compliant assets globally. Assets invested in this region could be affected by the economic crisis faced by the Gulf Countries induced by the COVID-19 pandemic as well as the dip in oil prices in the middle of the year.

Liquidity Risk

Liquidity risk due to maturity and currency mismatch may lead to the deterioration of the portfolio of offshore assets of Brunei banks, directly affecting their liquidity.

The ratio of total offshore assets to total deposits increased from 61.8% in 2019 to 67.1% in 2020. The majority of offshore assets were in placements, despite recording a decline to 61.4% in 2020 from 71.9% in 2019, This decline indicates that liquidity risk heightened slightly but remained manageable.

2.6.2 Risk of Offshore Investments in Equity

Following the trend of previous years, USD-denominated equities remained the biggest portion of offshore investments in equities at 77.0%. The remainder

of the investments in equities were in other foreign currencies which saw a large spike in 2020 (Table 6).

In terms of country exposure, investments in equities were mainly in Gulf Countries with the largest share at 62.4%. Share of offshore investments in equities in Europe continued to decline in 2020 to 14.5% and was accompanied by an increase in investments in equities in other regions namely Australia and the US.

2.6.3 Risk of Offshore Investments in Corporate Sukuk and Bonds

Similar to offshore investments in equities, the majority of offshore investments in corporate sukuk and bonds continued to be USD-denominated at 87.6% in 2020 (Table 7).

Following the decline in investments in corporate sukuk and bonds in other currencies, the share of SGD-denominated instruments continued its increasing trend in 2020.

In terms of country exposure, a substantial majority of offshore investments in corporate sukuk and bonds was held in Gulf Countries at 80.1%, an increase from 55.1% in 2019. This was due to the rectifications in reporting which also accounted for the fall in the share of investments in corporate sukuk and bonds in other countries/regions in 2020.

The high concentration of corporate sukuk and bonds held in Gulf Countries will continue to be monitored in light of the political and economic situation and their impact on the net asset value of banks' portfolio.

Table 6: Distribution of Offshore Investments in Equity by Currency and Country/Region: 2016–2020 (in BND million)

Year	2016		2017		2018		2019		2020	
By Currencies	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
USD	122.5	75.6	82.2	99.7	108.3	99.9	112.6	99.6	140.8	77.0
SGD	29.5	18.2	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.0
Others	10.0	6.2	0.0	0.0	-	0.0	0.3	0.3	42.0	23.0
TOTAL	161.9	100.0	82.4	100.0	108.4	100.0	113.0	100.0	182.9	100.0
By Country	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Singapore	0.7	0.4	0.7	0.8	1.9	1.8	1.9	1.7	0.6	0.3
Other ASEAN countries	2.2	1.4	2.2	2.7	2.5	2.3	2.5	2.2	0.7	0.4
East Asia	33.0	20.4	1.7	2.0	-	0.0	-	0.0	-	0.0
Gulf Countries	0.0	0.0	0.0	0.0	-	0.0	-	0.0	114.2	62.4
Europe	81.5	50.3	73.6	89.3	99.7	92.0	67.6	59.8	26.4	14.5
Others	44.5	27.5	4.2	5.1	4.2	3.9	41.1	36.3	41.1	22.5
TOTAL	161.9	100.0	82.4	100.0	108.4	100.0	113.0	100.0	182.9	100.0

Source: AMBD

Table 7: Distribution of Offshore Investments in Corporate Sukuk and Bonds by Currency and Country/Region: 2016–2020 (in BND million)

Year	2016		2017		2018		2019		2020	
By Currencies	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
USD	768.3	63.3	1,228.8	82.5	1,276.6	88.4	1,105.2	88.9	1,244.0	87.6
SGD	418.8	34.5	185.6	12.5	44.6	3.1	72.3	5.8	115.0	8.1
Others	25.9	2.1	75.8	5.1	122.8	8.5	65.3	5.3	61.7	4.3
TOTAL	1,213.0	100.0	1,490.1	100.0	1,444.0	100.0	1,243.8	100.0	1,420.7	100.0
By Country	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Singapore	148.5	12.2	95.1	6.4	51.1	3.5	72.3	5.8	115.4	8.1
Other ASEAN countries	142.7	11.8	375.4	25.2	242.5	16.8	212.6	17.1	156.3	11.0
East Asia	114.7	9.5	34.0	2.3	34.0	2.4	6.9	0.6	-	0.0
Gulf Countries	488.4	40.3	640.3	43.0	777.7	53.9	684.9	55.1	1,137.9	80.1
Europe	43.4	3.6	1.1	0.1	1.1	0.1	-	0	1.2	0.1
Others	275.3	22.7	344.3	23.1	337.6	23.4	266.1	21.4	10.0	0.7
TOTAL	1,213.0	100.0	1,490.1	100.0	1,444.0	100.0	1,243.8	100.0	1,420.7	100.0

Source: AMBD

2.7 Regulatory Development

Box 1. Highlights of Regulatory Policy Development in the Banking Sector

i. Notice on Temporary Regulatory Measures

A Notice on Temporary Regulatory Measures was issued on 15 April 2020 to all banks and finance companies, which sets out regulatory relief for certain measures to alleviate the financial burden of affected borrowers (businesses and individuals) due to the COVID-19 pandemic. The interim measures were focused on providing assistance in multiple forms which include temporary deferment to existing monthly repayment, restructuring of credit/financing facilities and conversion of credit card balances to fixed term loan.

For more details, please refer to Special Studies 4.1: Securing Financial Stability during COVID-19 Situation in Brunei Darussalam.

ii. Issuance of Market Risk Guidelines

As part of AMBD's ongoing efforts to raise industry standards that are aligned with international best practices, the Guidelines on Market Risk Management was issued to the banks on 17 April 2020. With the issuance of the Guidelines, banks are expected to have adequate and effective market risk management systems in place. This entails establishing policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis. The banks' risk management systems should also be proportionate to their market risk exposures which may come from adverse movements in market prices such as benchmark rates, foreign exchange rates, equity and commodity prices.

iii. Publication of Retail Lending Rates in the Banking Sector

In promoting transparency and competition in the banking sector, AMBD published a selection of lending/financing rates offered by individual banks to retail customers (Table 8). The publication, which will be updated on a quarterly basis, aims to facilitate consumers in making comparisons of lending/financing rates between banks and therefore, could help them to make better informed decisions. The publication can be viewed on AMBD's website (<https://www.ambd.gov.bn/publication-on-retail-lending-rates>).

Table 8. Retail Lending/Financing Rates in the Banking Sector: Q4 2020

Financial Institution	Home Mortgage Loans/Financings			Personal Loans/Financings			Education Loans/Financings			Home Renovation Loans/Financings		
	Min Rate	Max Rate	Mode Rate	Min Rate	Max Rate	Mode Rate	Min Rate	Max Rate	Mode Rate	Min Rate	Max Rate	Mode Rate
Baiduri Bank	4.0	5.5	4.0	5.0	7.5	7.5	7.5	7.5	7.5	n.a	n.a	n.a
BIBD	4.0	6.0	4.3	5.0	7.5	7.5	6.5	6.5	6.5	6.5	7.5	7.5
Maybank	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
RHB	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Standard Chartered	4.0	5.5	4.5	5.0	7.5	6.0	n.a	n.a	n.a	5.0	6.0	5.0
TAIB*	4.0	4.0	4.0	7.0	7.0	7.0	n.a	n.a	n.a	7.0	7.0	7.0

Source: AMBD

Note: 'n.a' denotes no new loans/financing were approved in the quarter.

3

Non-Banking Sector Developments

3.1 Finance Companies

3.1.1 Structure of Finance Companies

At present, two finance companies are licenced by AMBD, namely, Baiduri Finance Berhad and BIBD At-Tamwil Berhad. Similar to banks, the finance companies also provide savings and fixed deposits services, besides automobile loans/financing and consumer durable financing by using hire purchase agreement.

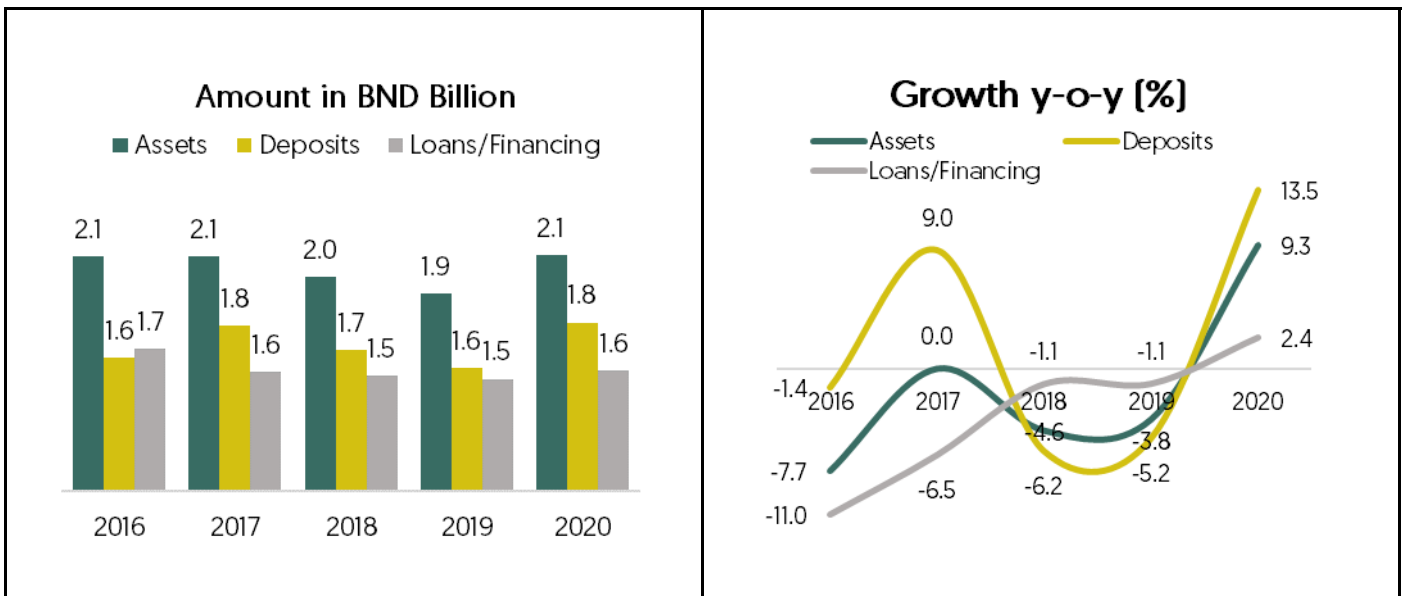
3.1.2 Balance Sheet Structure

As of year-end 2020, the finance companies sector

represented a share of 9.4% of total financial system assets. In 2020, the assets and deposits significantly increased by 9.3% to BND2.1 billion and 13.5% to BND1.8 billion respectively as compared to the previous year. The total loans/financing by finance companies also increased by 2.4% in 2020 to BND1.6 billion [Figure 22].

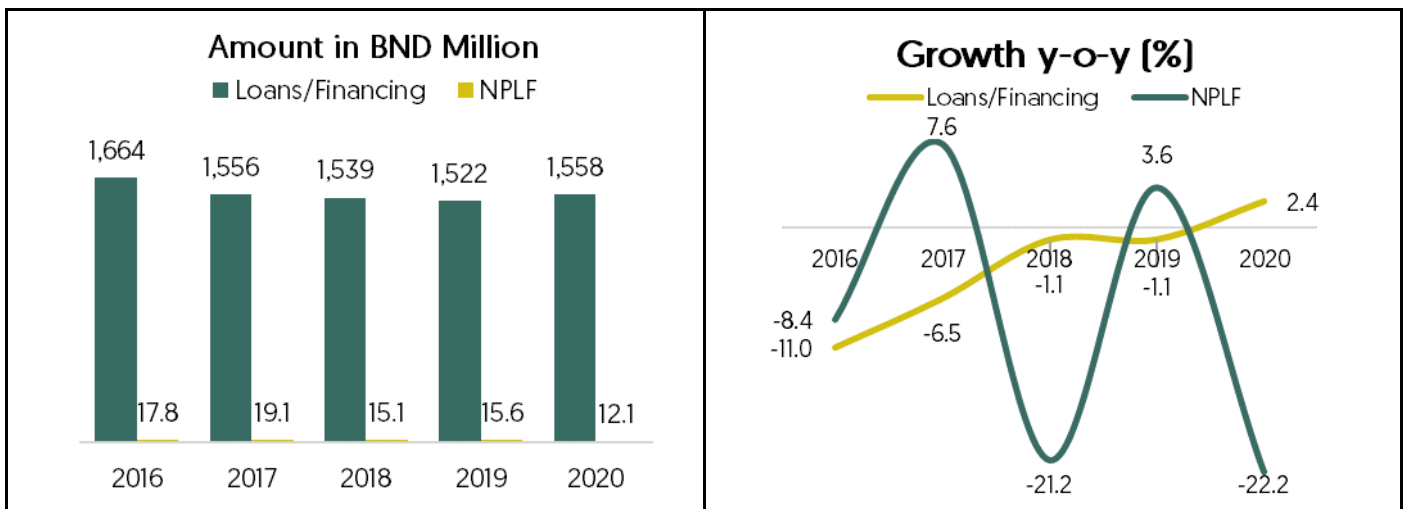
In terms of credit quality, the gross amount of NPLF recorded a significant decline of 22.2% y-o-y in 2020 to BND12.1 million [Figure 23]. Subsequently, the net amount of NPLF also recorded a decline of 22.6% to BND2.6 million in 2020 from BND3.4 million in 2019.

Figure 22. Trends and Growth in the Assets, Deposits and Loans/Financing for Finance Companies: 2016-2020 (in BND billion and percentage)



Source: AMBD

Figure 23. Trends and Growth in the Loans/Financing and Gross NPLF for Finance Companies: 2016-2020 (in BND million and percentage)



Source: AMBD

3.1.3 Trends in Types of Loans/Financing

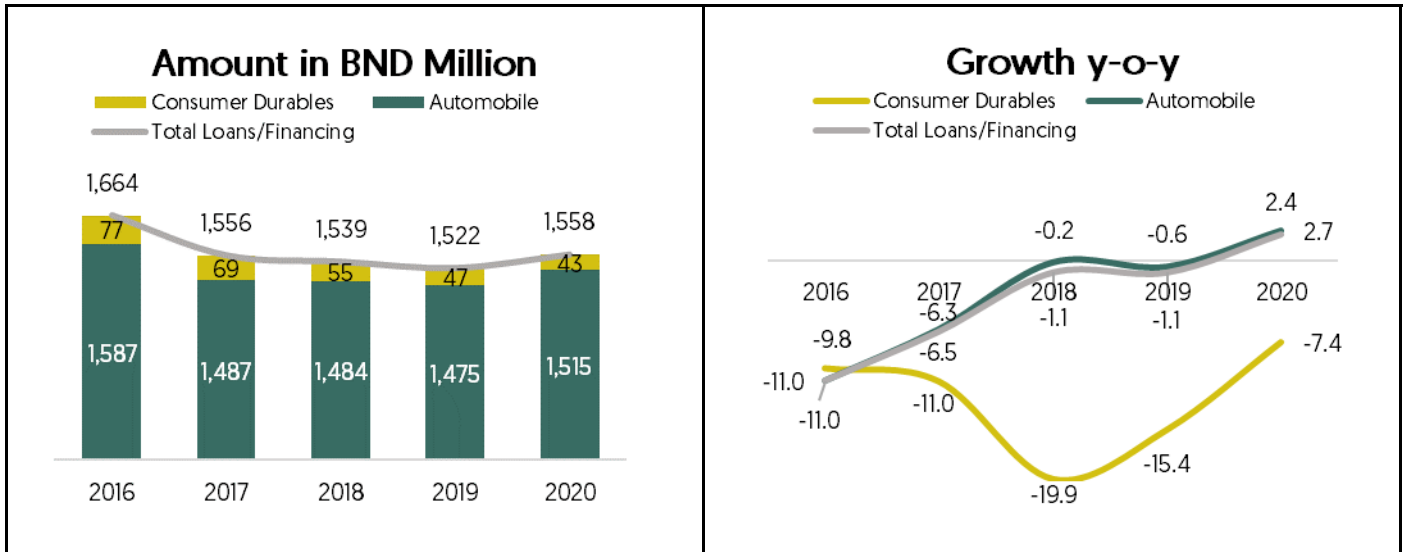
The lending/financing portfolio of the finance companies continued to be dominated by automobile loans/financing activities which made up 96.9% of the total loans/financing in 2020.

There was a slight increase in automobile loans/financing by 2.7% to BND1.5 billion in 2020 and a slight decline of consumer durable loans/financing by 7.4% to BND43.2 million when compared to 2019 [Figure 24].

The CAR as measured by total capital funds to total assets of the finance companies declined from 15.0% in 2019 to 12.6% in 2020. On the other hand, the ratio of net NPLF [net of specific provisions] to capital funds improved to 1.0% in 2020 from 1.7% in 2019 due to a decline in net amount of NPLF by 22.6% despite a decline in provision coverage by 22.1% in 2020 [Table 9].

The aggregate gross NPLF ratio declined and stood at 0.8% in 2019. At the same time, the net NPLF ratio [net of specific provisions] also declined to 0.2% in 2020

Figure 24: Trends and Growth in the Loans/Financing for Finance Companies: 2016-2020 (in BND million and percentage)



Source: AMBD

3.1.4 Assessment of Health

The health and performance of the finance companies are measured by the trends in four categories of financial soundness indicators in Table 9; namely, capital adequacy, credit quality, profitability and liquidity.

compared to 0.3% in 2019 [Figure 25].

Profit before tax reduced slightly by 1.5% y-o-y to BND62.9 million in 2020 primarily due to the decline in interest/profit income by 2.0% [Figure 26]. The ROA of finance companies declined slightly to 3.2% in 2020.

Table 9. Trends in the Financial Soundness Indicators for Finance Companies: 2016-2020 (in percentage)

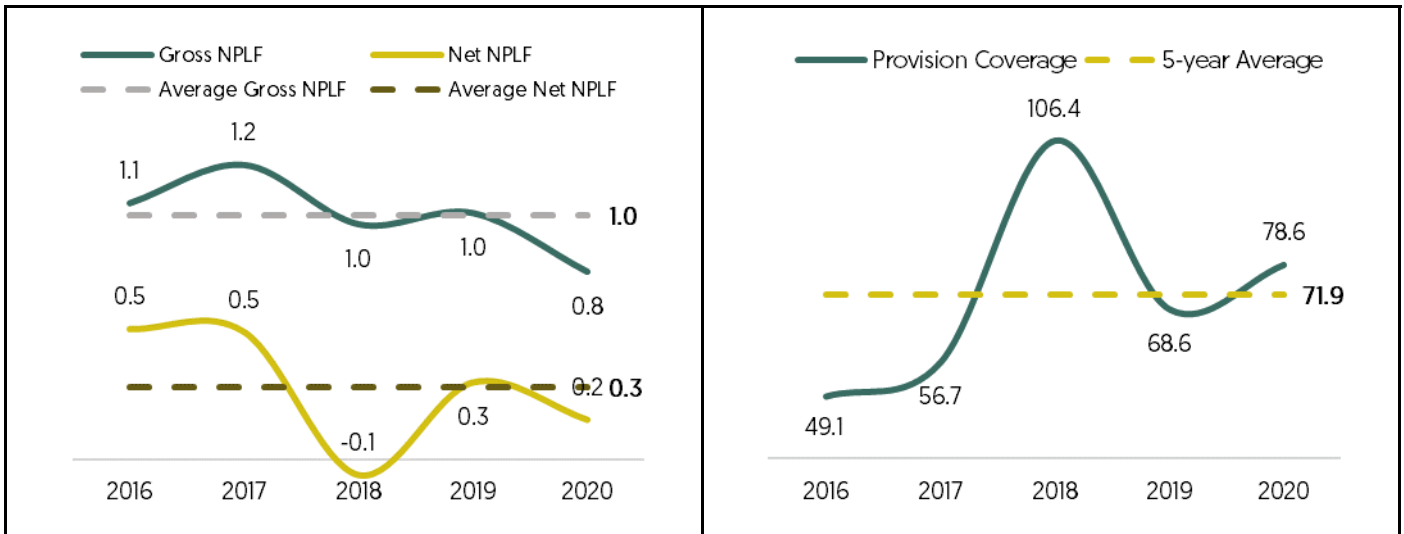
Financial Soundness Indicators	2016	2017	2018	2019	2020
Capital Adequacy					
Total Capital Funds to Total Assets	19.1	12.8	12.5	15.0	12.6
Non-Performing Loans/Financing (Net of Specific Provisions) to Capital Funds	2.3	3.1	-0.4	1.7	1.0
Credit Quality					
Non-Performing Loans/Financing to Gross Loans/Financing	1.1	1.2	1.0	1.0	0.8
Net Non-Performing Loans/Financing (Net of provisions) to Gross Financing	0.5	0.5	-0.1	0.3	0.2
Provision Coverage	49.1	56.7	106.4	68.6	78.6
Income, Expenses and Profitability					
Return on Assets (Before Tax)	3.2	2.9	2.9	3.4	3.2
Return on Equity (After Tax)	13.9	14.9	18.2	22.1	22.4
Efficiency Ratio	37.6	34.7	39.0	38.6	41.3
Liquidity					
Liquid Assets to Total Assets	14.3	19.4	16.9	14.5	19.5
Liquid Assets to Total Deposits	18.4	22.9	20.3	17.6	22.9
Loans/Financing to Deposits	102.6	88.1	92.8	96.8	87.3

Source: AMBD

Meanwhile, the ROE of finance companies trended upward from 22.1% in 2019 to 22.4% in 2020. The efficiency of the finance companies as measured by the ratio of non-interest/ profit expense to gross income deteriorated to 41.3% [Figure 27].

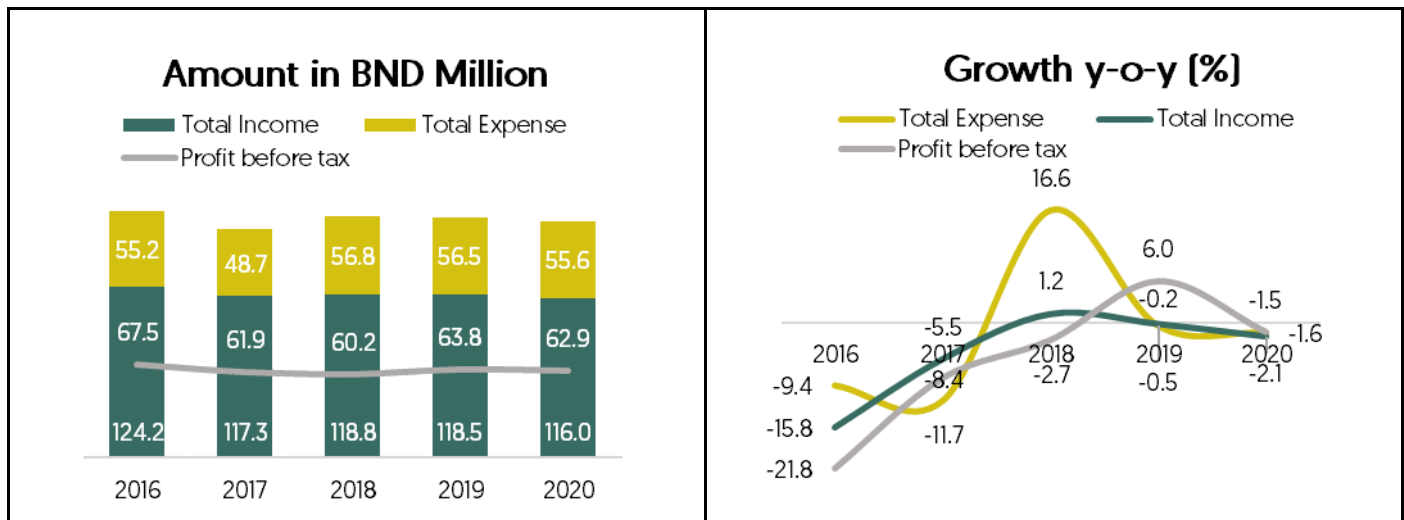
The loans/financing to deposit ratio decreased from 96.8% in 2019 to 87.3% in 2020, due to a larger increase in deposit level of 13.5% compared to a marginal increase in loans/financing of 2.4%. The ratio of liquid assets to total assets improved from 14.5% in 2019 to

Figure 25. Trends in the Credit Quality for Finance Companies: 2016-2020 (in percentage)



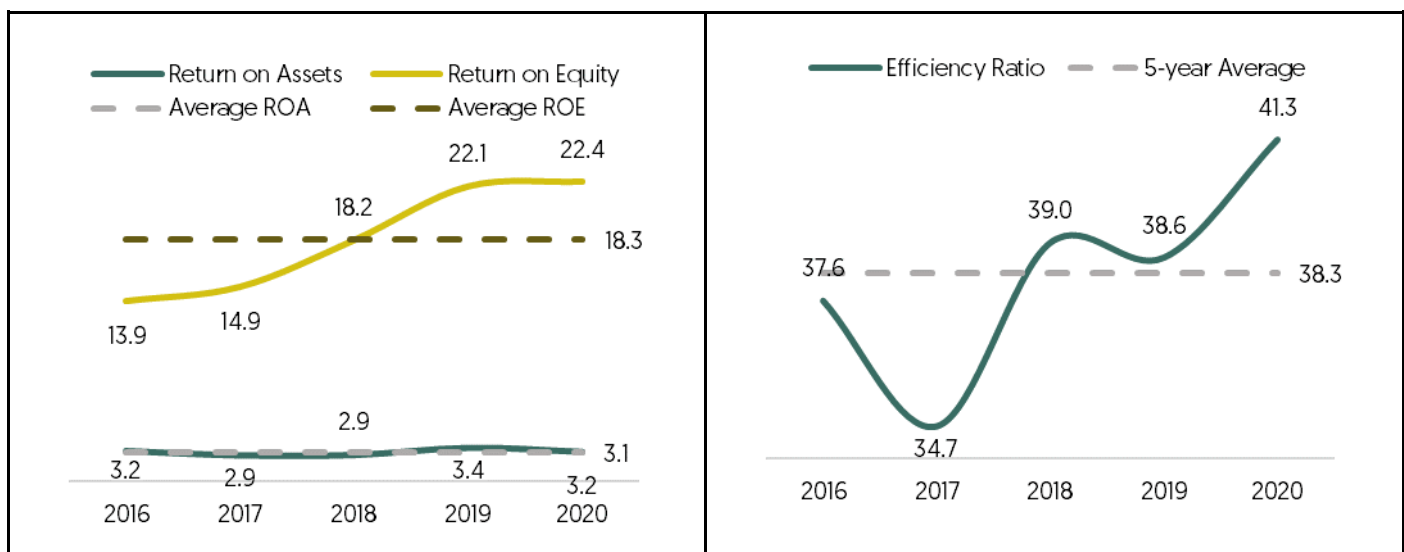
Source: AMBD

Figure 26. Trends and Growth in the Profitability for Finance Companies: 2016-2020 (in BND million and percentage)



Source: AMBD

Figure 27. Trends in Profitability Ratios for Finance Companies: 2016-2020 (in percentage)



Source: AMBD

19.5% in 2020. Furthermore, the liquidity ratio as measured by the liquid assets to total deposits also improved and stood at 22.9% in 2020 [Table 9].

3.2 Money-Changing and Remittance Sector

3.2.1 Structure of Money-Changing and Remittance Sector

The money-changing and remittance sector consists of small businesses run by local entrepreneurs specialising in single business operations of either money-changing or remittance. This sector has been in existence for many years now and plays a crucial role in the value chain of the tourism sector as well as in the cross-border mobility of funds particularly for foreign labourers and expatriates in the country.

Currently, AMBD has granted licences to 24 money-changers (including four hotels) and 18 remittance businesses. These businesses mainly operate in the Brunei-Muara district with one money-changer in the Belait District and one remittance business in Tutong District and Belait District respectively.

3.2.2. Development of the Money-Changing and Remittance Sector

Money-Changing sector

The outbreak of the COVID-19 pandemic in 2020 followed by the ongoing travel restrictions imposed to contain the spread of the pandemic severely affected the money-changing sector. The buying and selling of foreign currencies in terms of value fell significantly by 64% [BND 20.6 million] and 77% [BND 130.5 million] respectively [Table 10].

In terms of buying, United States Dollar, Malaysian Ringgit and British Pounds Sterling were the main currencies bought. The Malaysian ringgit remained the top foreign currency sold representing 48% of the total value of foreign currencies sold in 2020 [Figure 28].

AMBD introduced relief measures for the money-changing sector to help ease the financial burden faced by money-changing licencees caused by the COVID-19 pandemic. For more details, please refer to *Special Studies 4.1: Securing Financial Stability during COVID-19 Situation in Brunei Darussalam*.

Table 10. Total Value of Buying and Selling of Foreign Currencies for Money-changers: 2016-2020 (in BND million)

Year	2016	2017	2018	2019	2020	2019-2020 % Change
Buying	31	30	29	32	12	-64%
Selling	123	118	134	170	39	-77%

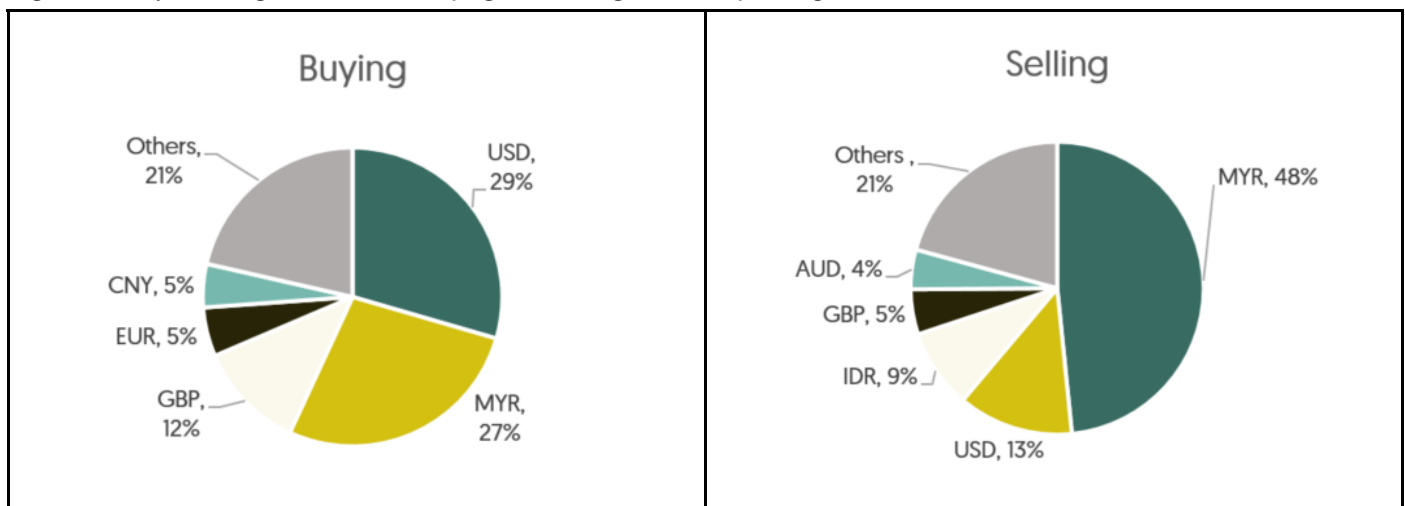
Source: AMBD

Table 11. Total Number of Transactions of Money-Changers for Buying and Selling: 2016-2020

Year	2016	2017	2018	2019	2020	2019-2020 % Change
Buying	137,058	145,074	145,084	153,179	49,753	-68%
Selling	254,748	250,588	275,586	319,320	72,764	-77%

Source: AMBD

Figure 28. Top 5 Foreign Currencies [Buying and Selling] of Money-changers: 2020



Source: AMBD

Remittance Sector

Despite the ongoing COVID-19 pandemic, the swift and commendable efforts made by the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam enabled the remittance sector to remain resolute and accessible to the general public. This allowed funds to be continuously mobilised into and outside of Brunei Darussalam.

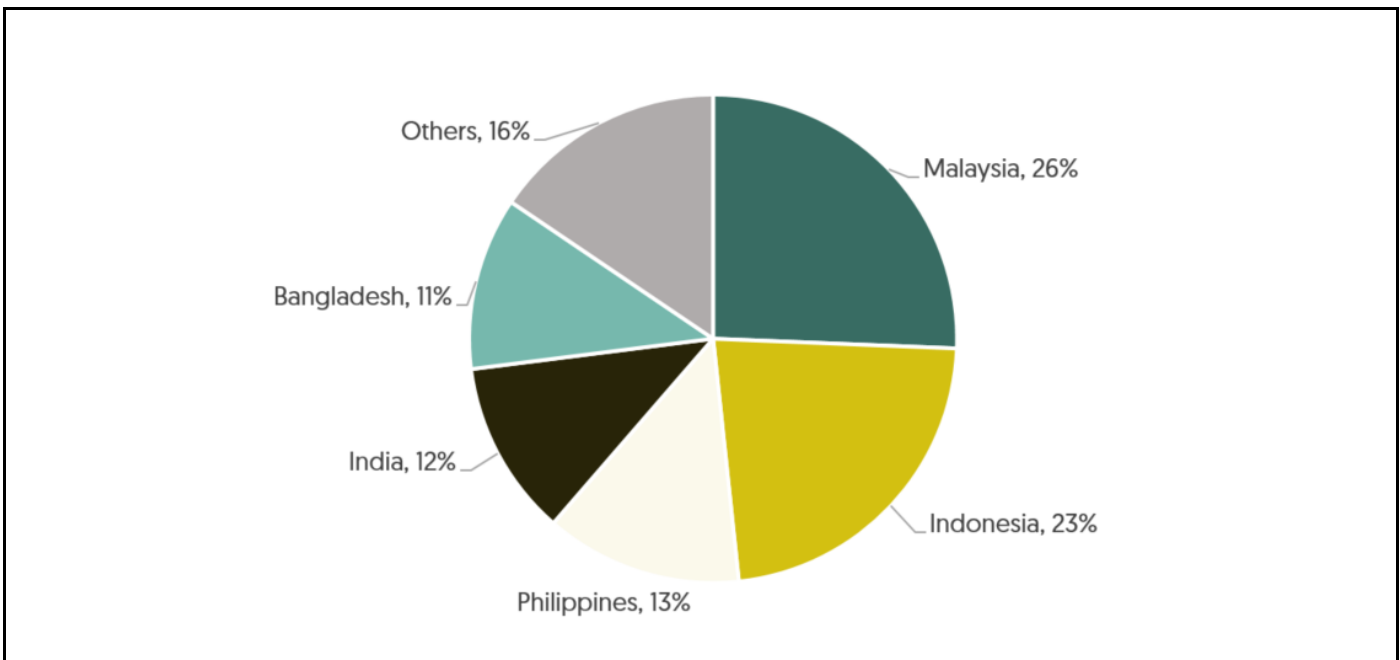
In 2020, outward remittance in terms of value and transactions grew by 45% (BND328 million) and 7% (80,741 transactions) respectively compared to 2019 [Table 12].

Table 12: Outward remittance [2016-2020]

Year	2016	2017	2018	2019	2020	2019-2020 % Change
Transaction Value (BND million)	698	666	724	730	1,058	45%
No. of Transactions	1,344,090	1,251,366	1,185,999	1,136,063	1,216,804	7%

Source: AMBD

Figure 29. Top 5 Outward Remittance Destinations: 2020



Source: AMBD

Outward remittances are primarily transacted by foreign labourers and expatriates. As a result, remittance destinations are reflective of countries from which foreign labourers originate from. Malaysia ranked first as the top remittance destination in 2020, representing 26% of total outward remittance followed by Indonesia and the Philippines with 23% and 13% respectively [Figure 29].

3.2.3 Regulatory Development

Box 2. Highlights of Regulatory Policy Development for Money-Changing and Remittance Sector

AMBD continues to make efforts to elevate the standards of the money-changing and remittance sector by enhancing and aligning its legal, regulatory and supervisory framework based on international standards and best practices.

In line with Pillar 1 of Brunei Darussalam's Financial Sector Blueprint 2016-2025, a risk-based supervision framework has been used to supervise and monitor money-changing and remittance businesses since 2020. The new supervision framework outlines the way in which AMBD conducts supervision and monitoring by focusing on risks associated with both sectors such as operational, money laundering and terrorism financing risks.

Guidelines on Minimum Standards for a Remittance System

Guidelines on Minimum Standards for a Remittance System were issued on 12 February 2020 to all remittance businesses. These Guidelines are intended to provide guidance and facilitate compliance to the licencing conditions, specifically on the requirement for the licencees to provide a robust and secure remittance system to support business operations and to safeguard the integrity of the remittance sector from being used as a conduit for illegal activities including money laundering and terrorism financing.

Following the issuance of the guideline, the remittance sector conducted a self-assessment on the implementation of the Guidelines using a questionnaire issued by AMBD in May 2020 followed by onsite inspections by AMBD which were completed in October 2020.

Guidelines on Minimum Requirements for Money-Changing and Remittance Businesses Compliance Officer

Guidelines on Minimum Requirements for Money Changing and Remittance Businesses Compliance Officer was issued on 3 June 2020 to all licencees. These Guidelines are intended to provide further guidance to Money-Changing Licencees and Remittance Licencees on the requirements for the appointment of a compliance officer in order to ensure compliance to licencing conditions as well as other relevant guidelines, rules and regulations.

Training and Awareness

On 23 and 25 November 2020, a Standard Operating Procedure (SOP) Workshop for money-changing and remittance businesses was held in collaboration with Brunei Institute of Leadership and Islamic Finance (BILIF) to guide licencees on the thought process involved in developing a comprehensive SOP that best fits their needs and purposes.

On 20 July 2020, a briefing session was conducted for licenced remittance businesses to introduce the risk-based approach and the processes involved in risk management. The briefing session also included a presentation by Financial Intelligence Unit (FIU), AMBD on Transaction Monitoring.

On 31 August 2020, a Remittance Forum entitled "How Technology is Transforming the Remittance Sector" was held to create awareness among remittance licencees on the role of technology in improving the delivery of remittance service, reduction of costs and compliance.

As part of AMBD's continuous effort in enhancing public awareness, posters were circulated in August 2020 on "Tips On How to Send Money Safely" to all remittance businesses, relevant government departments as well as foreign embassies in Brunei Darussalam to advise the public to only deal with licenced remittance businesses when sending money abroad to ensure that funds reach the intended recipient safely.

3.3 Takaful and Insurance Sector

3.3.1 Structure of Takaful and Insurance Sector

The takaful and insurance sector in Brunei Darussalam consists of 11 companies of which five companies carry out life business and six companies carry out general business. Registered intermediaries comprise of one insurance broker and 555 agents of which 240 are general insurance/takaful agents and 315 are life insurance/family takaful agents.

3.3.2 Development of Takaful and Insurance Sector

Total assets of the takaful and insurance industry increased by 10.9% in 2020. Gross premiums

improved by 3.1% due to the premium growth in both life and general sectors by 5.6% and 1.6% respectively.

The industry recorded a margin of solvency of 54.5% in 2020 compared to 54.8% in the same period last year which continued to be above the regulatory requirement of 20% of surplus over liabilities. With the development of Risk-Based Capital and Solvency (RBCS) framework, a requirement for proper attribution of their assets and liabilities was also introduced where funds are required to be appropriately segregated and effectively controlled with established policies and procedures. To ensure a smooth transition to the new framework, a trial run began in September 2020 preceding the full implementation of the framework.

Table 13. Takaful and Insurance Highlights: 2016-2020

Year (In BND million)	2016	2017	2018	2019	2020
Assets	1,470.3	1,596.7	1,625.8	1,762.4	1,954.4
Gross Premiums	301.2	296.1	294.7	291.2	300.2
Gross Claims/Benefits	174.2	144.9	126.6	145.8	161.8
Y-o-Y Percentage Change	2016	2017	2018	2019	2020
Assets	+7.6	+8.6	+1.8	+8.4	+10.9
Gross Premiums	-5.3	-1.7	-0.5	-1.2	+3.1
Gross Claims/Benefits	+22.1	-16.8	-12.6	+15.7	+10.9

Source: AMBD

Table 14. Takaful and Insurance Industry Financial Performance: 2018-2020 (in BND million)

Indicators	2018	2019	2020
Gross Premiums/Contributions	294.7	291.2	300.2
Net Premiums	221.1	225.1	231.3
Business ceded outside Brunei	73.6	66.1	68.9
Gross reinsurance/retakaful recoveries	70.8	82.3	86.7
Net investment income	24.9	68.0	79.5
Underwriting income	34.3	44.5	33.8
Net income/(loss)	37.0	21.1	7.7
Retention ratio	75.0%	77.3%	77.0%
Return on Equity (General)	10.4%	12.3%	12.6%

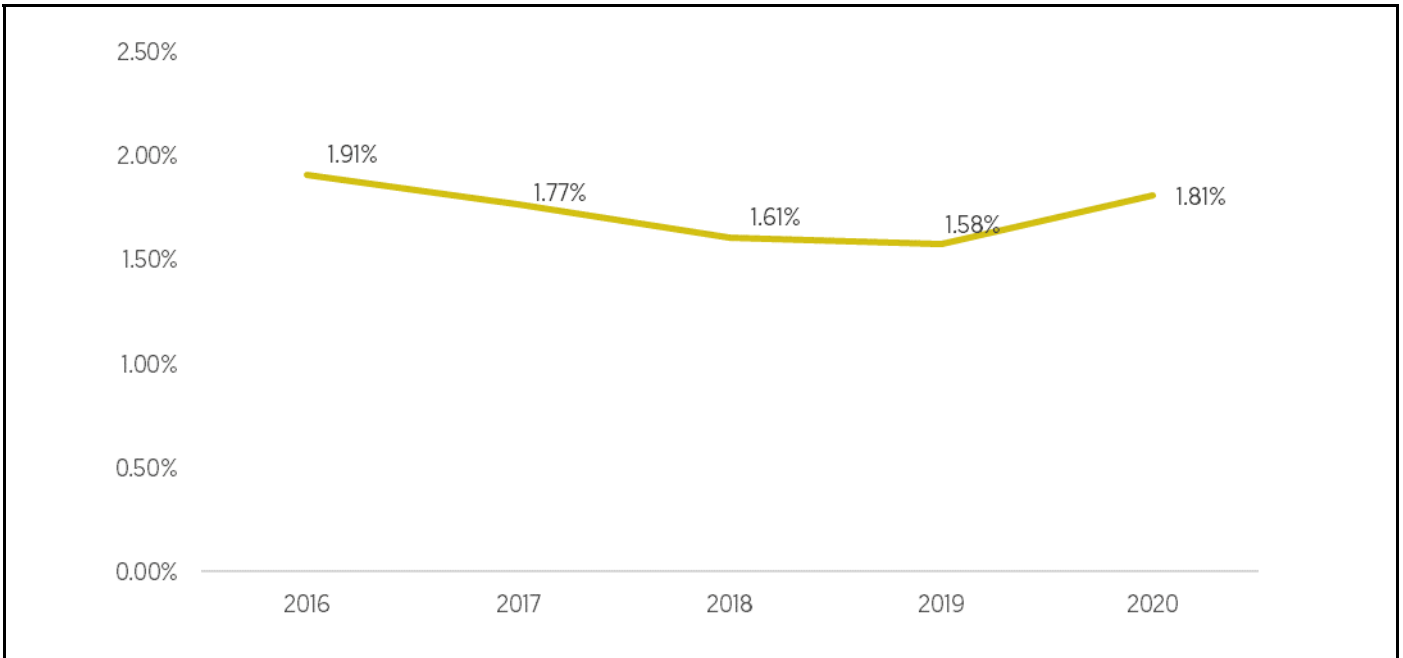
Source: AMBD

In 2020, the level of development of the takaful and insurance sector in Brunei Darussalam as measured by the insurance penetration rate, or ratio of gross premiums and contributions to GDP stood at 1.81%, a slight increase from the 2019 penetration rate of 1.58% [Figure 30].

General business contributed to 51.0% of total net premiums, of which 69.7% are from motor policies followed by workmen compensation (10.0%); property (9.6%); and personal accident (2.8%) businesses.

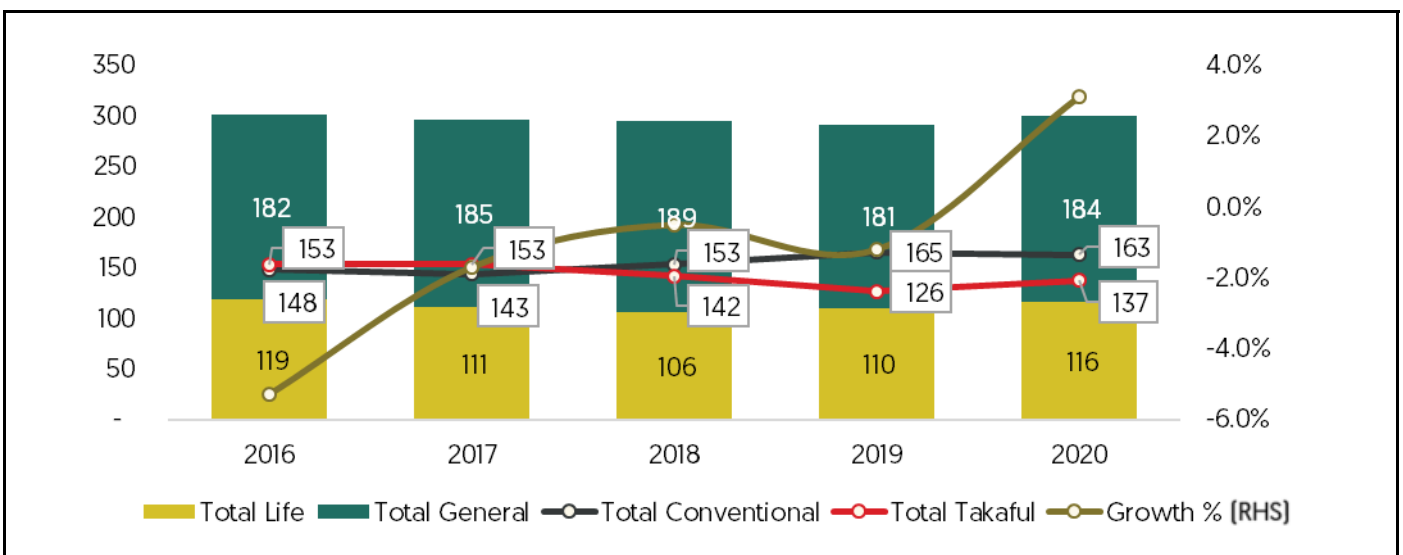
A total of 354,643 policies/certificates were issued by

Figure 30. Insurance Penetration Rate: 2016-2020 [in percentage]



Source: AMBD

Figure 31: Total Takaful and Insurance Industry Gross Premiums: 2016-2020 (in BND million)



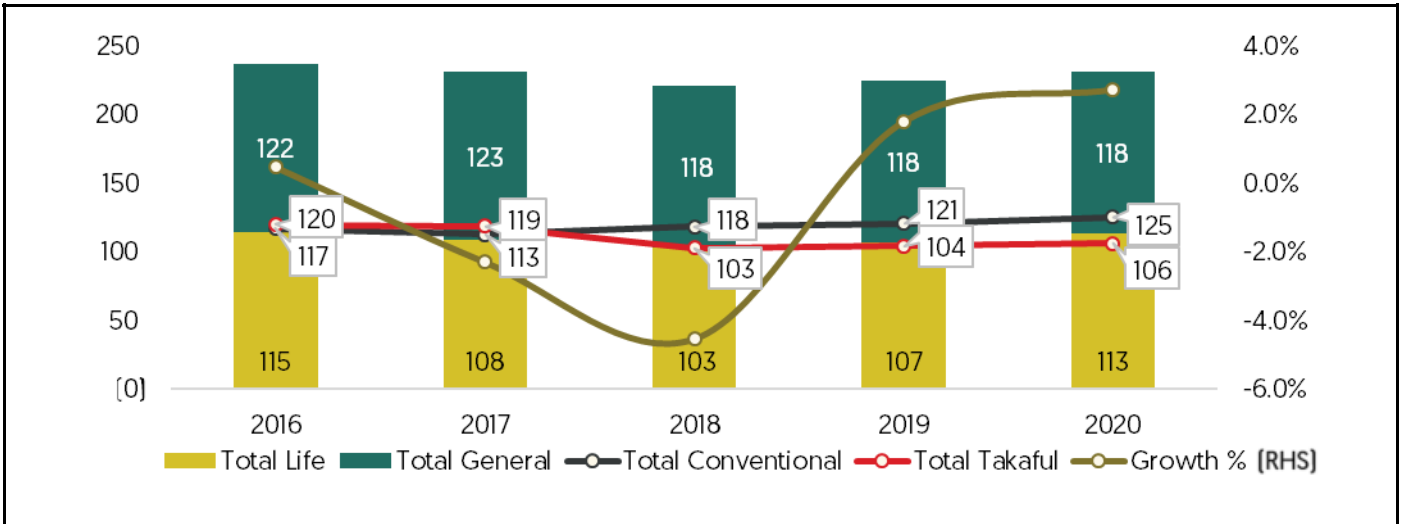
Source: AMBD

Figure 31 presents the industry's total gross premiums for the past five years. Gross premiums improved by 3.1% from BND291.2 million in 2019 to BND300.2 million in 2020 driven by a premium growth in both general and life sector by 1.6% and 5.6% respectively.

In terms of net premiums, the insurance business improved by 2.8% to BND231.3 million in 2020 compared to BND225.1 million in 2019 due to lower premiums ceded to reinsurers. Figure 32 presents the total industry's net premiums for the past five years.

the general sector in 2020 compared to 389,741 policies in 2019, a contraction of 9.0% as a result of travel restrictions due to the COVID-19 pandemic. Thus, gross premiums and number of policies issued under personal accident portfolio declined by 39.7% and 68.4% respectively. Meanwhile, a total of 31,218 new policies were issued and a total of 240,319 policies were in-force for life business in 2020, a decline of 15.1% and 0.8% respectively.

Figure 32: Total Takaful and Insurance Industry Net Premiums/Contributions: 2016-2020 (in BND million)



Source: AMBD

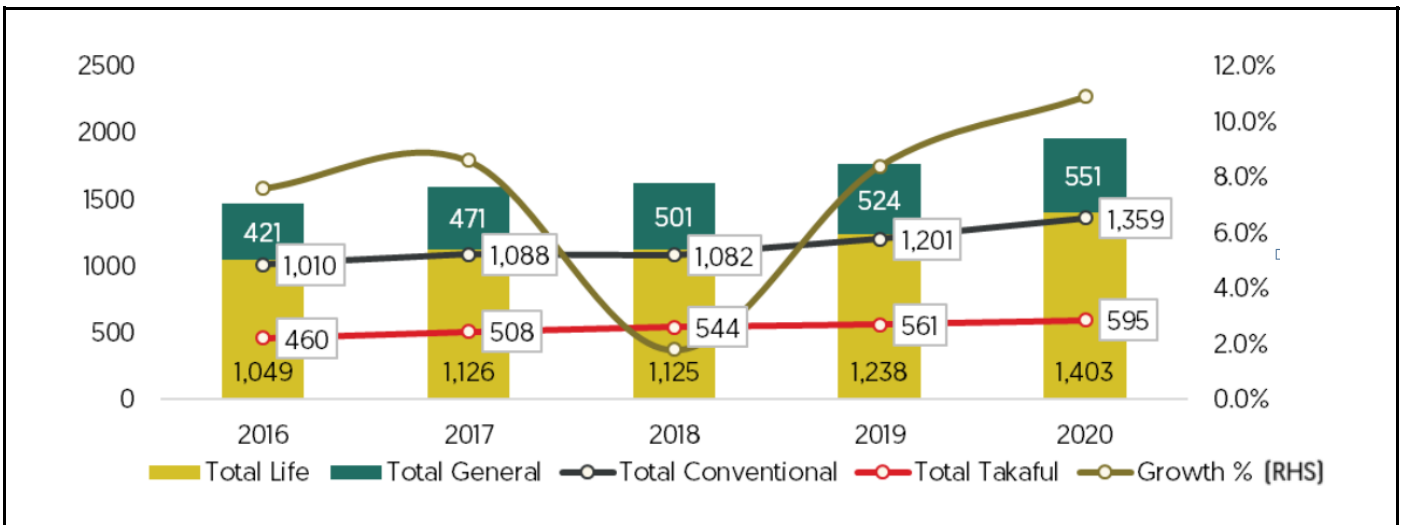
Trend in Assets

Figure 33 presents the industry’s total assets for the past five years. Holdings of financial assets by takaful operators and insurance companies grew by 10.9% to BND1.95 billion in 2020 compared to 8.4% in 2019.

The asset portfolio as of 2020 included investments (65.7%); cash and cash equivalents (23.7%); recoverable

from reinsurers (4.6%); receivables (4.2%); and other assets (1.8%). The investment placements were mainly in bonds and debentures (56.2%) followed by common shares (31.2%) and short-term placements (8.1%). The majority of the investment placements were primarily held by life insurers to correspond with their longer-term liability structure (Table 15 and Table 16).

Figure 33: Total Takaful and Insurance Industry Assets: 2016-2020 (in BND million)



Source: AMBD

Table 15. Cash and Investments Ratio to Total Assets: 2016-2020 (in BND million)

Instruments	2016	2017	2018	2019	2020
Cash	344.2	374.3	420.5	427.6	464.0
Investments	962.6	1,056.5	1,027.5	1,140.9	1,283.4
Total Assets	1,470.3	1,596.6	1,625.8	1,762.4	1,954.4
% ratio to total assets	88.9%	89.6%	89.1%	89.0%	89.4%

Source: AMBD

Table 16. Breakdown of Investments: 2016-2020 (in BND million)

Instruments	2016	2017	2018	2019	2020
Short-term investment	125.5	124.5	110.0	102.2	104.8
Bonds and debentures	560.9	588.0	617.4	675.3	724.1
Preferred shares	35.4	34.6	25.1	25.5	26.3
Common shares	244.6	310.8	283.1	322.3	401.5
Investment properties	3.7	4.1	2.8	1.5	1.4
Other loans and invested assets	5.7	5.8	0.0	14.1	30.7
Total Investments	975.8	1,067.8	1,038.4	1,140.9	1,288.9

Source: AMBD

General Takaful and Insurance Business Development

The overall general takaful and insurance business showed a slight increase of 1.6% in 2020 (Table 17) as there was mixed performances among different lines of business. Out of the total of BND184.0 million of gross premiums/contributions recorded, BND66.1 million (35.9%) was ceded to both local insurers and outside Brunei Darussalam. This sub-sector has maintained on average a retention ratio of 63.9% for the past three years.

Motor takaful and insurance business recorded a slight decline in performance by 0.4% in 2020 to BND89.4 million caused by the contraction of comprehensive motor business by 1.3%. This was also evident as the number of policies for comprehensive motor business declined to 161,813 in 2020 compared to 178,426 in the previous year. In contrary, third party motor policies increased to 112,172 or 2.4% in 2020.

On the other hand, other lines of general business including energy, engineering, others, and workmen compensation showed positive growth as there were new businesses recorded during the year (Table 17).

This growth was mainly attributed to energy-related insurance where premiums significantly increased by 929.8% in 2020 from BND2.2 million in 2019 to BND22.4 million in 2020.

In terms of gross claims, general business recorded an increase by 16.9% from BND77.4 million in 2019 to BND90.5 million in 2020 due to increase in marine, aviation and transit and liability amounting to BND13.5 million and BND6.8 million respectively as the number of bigger claims cases rose.

Reinsurers' shares of claims amounted to BND34.3 million, or 38.2% of the total claims recorded in 2020.

Life Insurance and Family Takaful Businesses Development

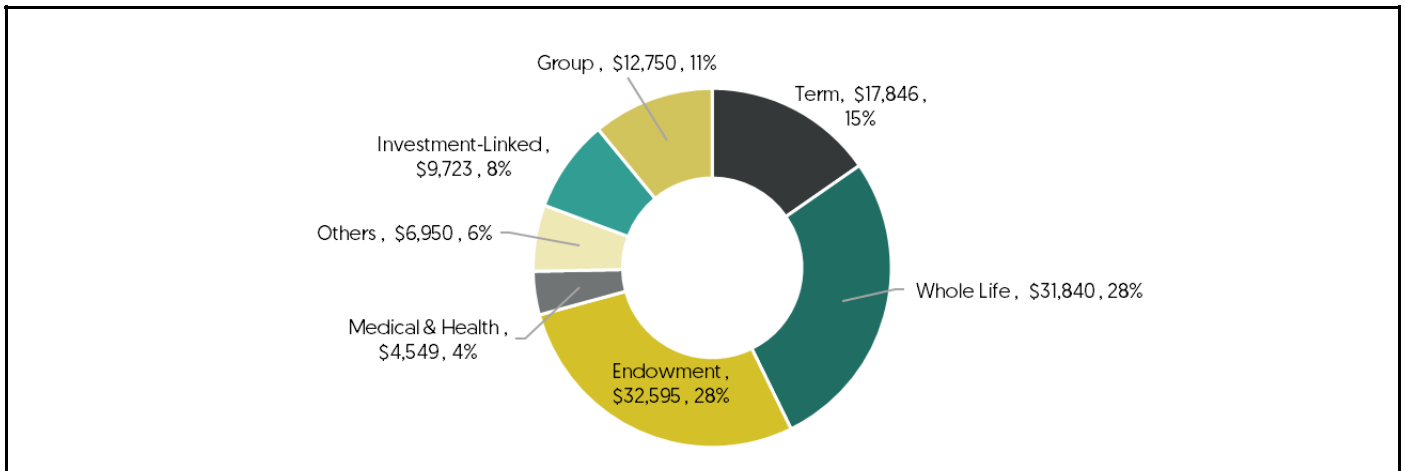
The overall life insurance and family takaful businesses slightly improved by 5.6% due to the increase in endowment life/family insurance by 10.2%. This was as a result of the increase in renewals from conventional life insurance. Endowment business had the largest market share in the overall life insurance and family takaful businesses, where it made up 28.0% of total business in force, followed by whole life business, at 27.4% and term business at 15.4% (Figure 34).

Table 17. Gross Premiums/Contributions for General business: 2018-2020 (in BND million)

Classes of General Business	2018	2019	2020	% change y-o-y
Property	23.3	36.5	26.9	-26.1
Motor	91.5	89.8	89.4	-0.4
MAT	10.8	12.5	9.9	-21.2
Energy	22.9	2.2	22.4	+929.8
Engineering	7.0	1.6	3.2	+105.4
Liability	5.5	10.2	6.0	-41.2
Personal Accident	8.5	8.9	5.4	-39.7
Workmen Compensation	12.7	13.3	14.0	+5.0
Others	6.3	6.1	6.7	+9.7
Total Gross Premiums/Contributions	188.6	181.1	183.9	+1.6

Source: AMBD

Figure 34. Life Insurance Premiums and Family Takaful Contributions (business in-force) by Classes of Business: 2020 (in BND thousand)



Source: AMBD

In terms of new business, 2020 recorded a major decline in terms of the number of policies by 15.1% to 31,218 policies/certificates due to the decrease in all types of policies/certificates issued with the exception of endowment and group policies/certificates.

This sub-sector is dominated by foreign branches which represented 76.3% of the total premiums collected as of 2020 (Figure 35). However, local players

have written 73.4% of the total policies in force, or 176,359 policies compared to 180,842 in 2019.

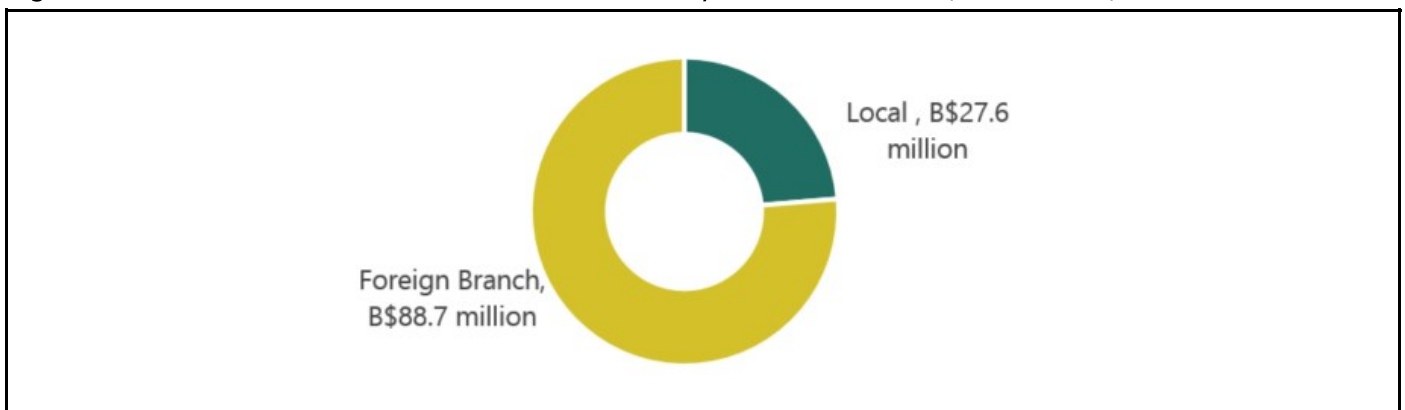
The life insurance and family takaful businesses recorded an increase in gross claims by 4.3% from BND69.0 million in 2019 to BND72.0 million in 2020, mainly due to the increase in investment (unit)-linked insurance/takaful claims by 70.4%. Nonetheless, claims for other life insurance and family takaful businesses have declined.

Table 18. Gross Premiums/Contributions for Life/Family Takaful Business – New Business: 2018-2020 (in BND million)

Classes of Life/Family Takaful Business	2018	2019	2020	% Change y-o-y
Term	13.6	14.5	15.0	+3.6
Whole Life	0.8	0.9	0.8	-10.5
Endowment	7.1	9.5	3.6	-61.9
Medical & Health	0.6	0.6	0.3	-40.0
Others	1.1	1.0	0.2	-78.1
Investment-Linked	1.0	0.2	0.1	-64.7
Group	4.5	4.4	3.8	-14.3
Total Gross Premiums/Contributions [New Business]	28.7	31.1	23.8	-23.1

Source: AMBD

Figure 35. Gross Premiums/Contributions: Life Insurance/Family Takaful sector: 2020 (in BND million)



Source: AMBD

3.3.3 Assessment of Health

The health of the takaful and insurance sector is assessed by the regulatory solvency requirement as well as the loss ratio.

Margin of Solvency

Insurance Order, 2006 and Takaful Order, 2008, prescribed by the respective regulations, require all insurance companies and takaful operators to maintain at least 20% more assets over liabilities. The takaful and insurance sector's fund margin of solvency in 2020 stood at 54.5% indicating strong solvency level. The new RBCS framework will introduce two solvency control levels, namely the Prescribed Capital Requirement (PCR) and Minimum Capital Requirements (MCR) at the company level.

Loss ratio⁷

Loss ratio for the general takaful/insurance sector was

recorded at 44.7% in 2020 compared to 42.9% in 2019 [Table 19]. Motor business accounted for 59.4% of total gross general claims, amounting to BND53.8 million. The claims ratio for motor business was 50.8% in 2020 (2019: 47.5%), and remained higher than the overall general business in total.

Trends in Profitability

The takaful and insurance sector recorded lower profitability in 2020 by 63.4% [Figure 36]. This was largely due to the increase in payout attributable to the policyholders/participants by life and family takaful businesses in addition to the increase of gross claims mentioned in Section 3.2.2.

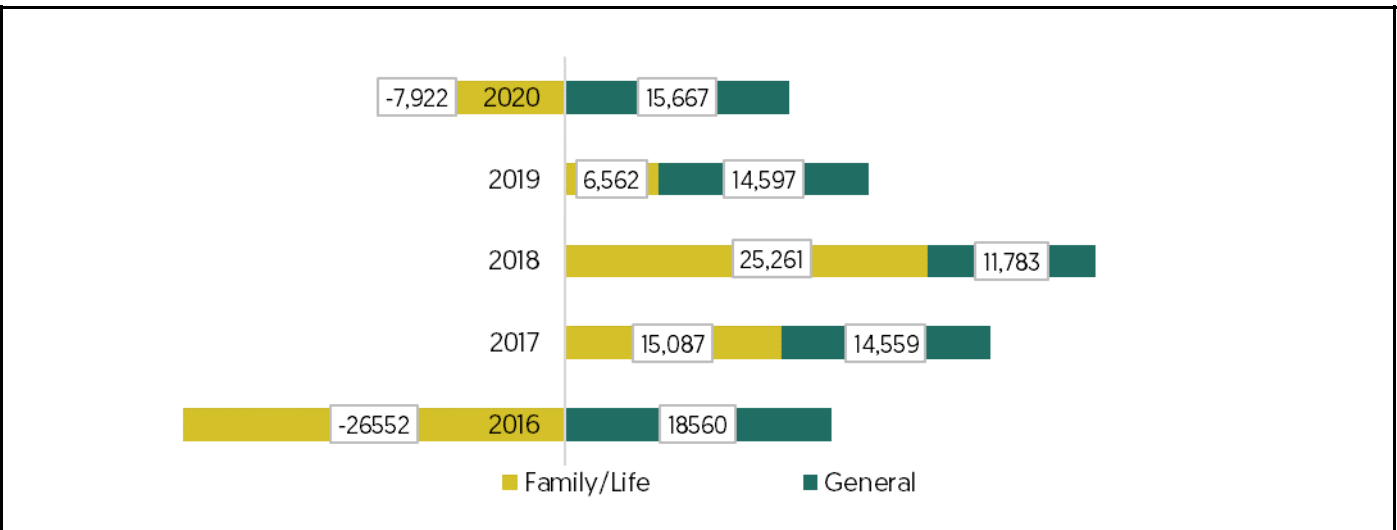
Nonetheless, general insurers and takaful operators experienced improved profitability by 7.3% in 2020 [Figure 36], as general business recorded higher underwriting revenues.

Table 19. Takaful and Insurance Industry: 2018-2020 (in BND million)

Indicators	2018	2019	2020
Claims/Loss ratio [General]	45.3%	42.9%	44.7%
Combined ratio [General]	78.1%	79.3%	83.4%
Solvency margin ratio (≥120%)	149%	155%	154%

Source: AMBD

Figure 36: Takaful and insurance Industry Profitability: 2016-2020 (in BND thousand)



Source: AMBD

⁷ Loss ratio represents the ratio of losses to premiums earned.

3.3.4 Regulatory Development

Box 3. Highlights of Regulatory Policy Development for Takaful and insurance Sector

AMBD is focusing on improving the supervisory framework in accordance with the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs). In 2020, AMBD issued several notices and guidelines relating to governance and risk management, as well as consumer protection. The notices and guidelines included: -

Governance and Risk Management

i. Notice on Recovery Planning for Insurance Companies and Takaful Operators

The Notice issued on 12 March 2020 requires each insurer to develop a recovery plan proportionate to their size, complexity, incorporation, risk profile and business model.

ii. Guidelines on Elements of a Recovery Plan for Insurance Companies and Takaful Operators

The Guidelines issued on 12 March 2020 provide guidance on the appropriate development of a recovery plan such as in the insurer's governance, trigger framework, recovery options and consideration of stress scenarios and communication strategy.

iii. Notice on Establishment and Maintenance of Insurance Funds for Insurance Companies and Takaful Operators

The Notice issued on 23 June 2020 provides for the proper attribution of assets and liabilities to businesses of each insurer and Takaful operator. Takaful and insurance funds are required to be appropriately segregated and effectively managed.

iv. Notice on Product Approval for Insurance Companies

AMBD introduced a "launch and file" system on 9 September 2020 to expedite the approval of insurance products, applicable for insurance products that are not considered a "new product", a life annuity or investment-linked insurance product; or where the features of the product being launched are already present in existing products offered by the insurance companies in the Brunei Darussalam market.

v. Guidelines on Reinsurance/Retakaful Management

The Guidelines issued on 7 April 2020 provides guidance on the use of reinsurance to ensure that insurers adequately control and transparently report their reinsurance activities.

Market Conduct and Consumer Protection

i. Notice on Surplus Distribution for Takaful Operators

The Notice issued on 13 January 2020 requires takaful operators to specify the basis of determining the surplus and method of transferring it to takaful participants. The Notice requires surplus to be distributed only to participants who have not received indemnity during the financial period with variation (wholly or partially) of the distribution method to be approved by the Syariah Advisory Body and the Board of the takaful operator.

ii. Guidelines on Online Distribution for Insurance Companies and Takaful Operators

The Guidelines issued on 7 February 2020 sets out AMBD's expectations for insurance companies, takaful operators and intermediaries when conducting insurance-related transactions online in terms of their risk management and internal control.

3.4 Capital Market

3.4.1 Development of Capital Market Sector

Securities Exchange Development

The Ministry of Finance and Economy (MOFE), with the support of AMBD, has been active towards the development of a Stock Exchange in Brunei Darussalam. AMBD, as the competent regulator for the exchange, issued an Exposure Draft of the Listing Rules to the industry at the end of September 2020. The aim of the issuance of the exposure draft was to gather input and views from relevant stakeholders on the proposed Listing Rules and the framework. During the consultation period, AMBD together with Bursa Brunei Darussalam Sdn Bhd (BNX) engaged with stakeholders including financial industry players, law firms, audit firms, Chambers of Commerce, government-linked companies, and private companies to gauge interest in listings in general, and to obtain feedback on the level of readiness of potential listed companies and other supporting services.

Trends within the Capital Market

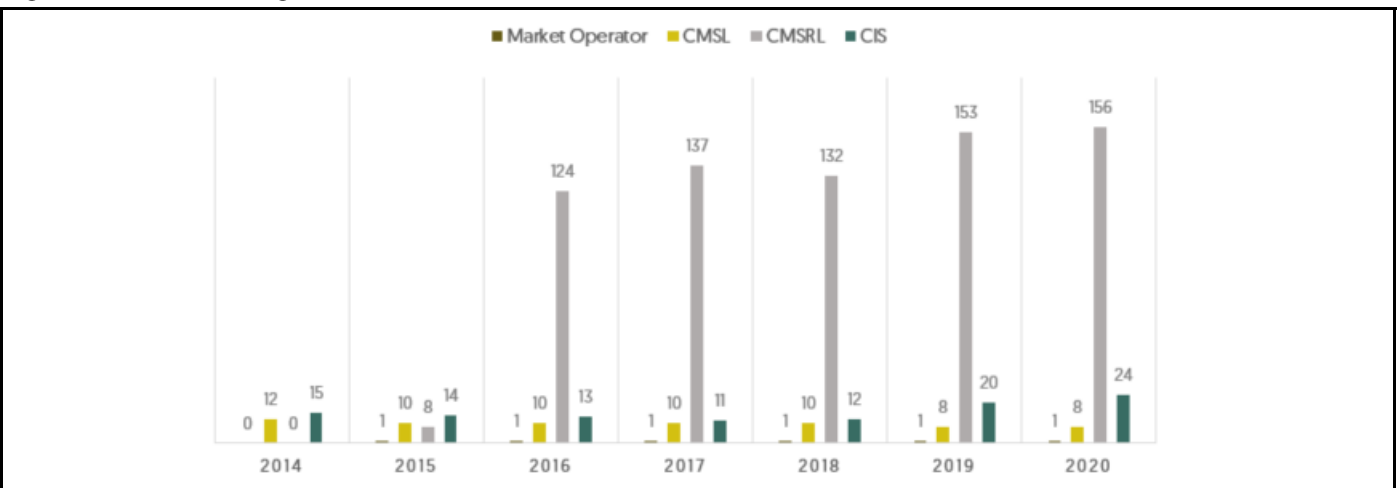
Regulated Persons

In terms of the trends of regulated persons under the Securities Markets Order, 2013 (SMO), the total number of regulated persons increased by 3.85% from 2019 to 2020 due to a rise in the total number of persons holding the Capital Markets Services Representative's Licence (CMSRL) by 3 and an increase of total number of Collective Investment Schemes (CIS) by 4. The total number of Capital Markets Services Licence (CMSL) holders and the number of recognised trading facility remained constant (Figure 37).

Assets Under Management

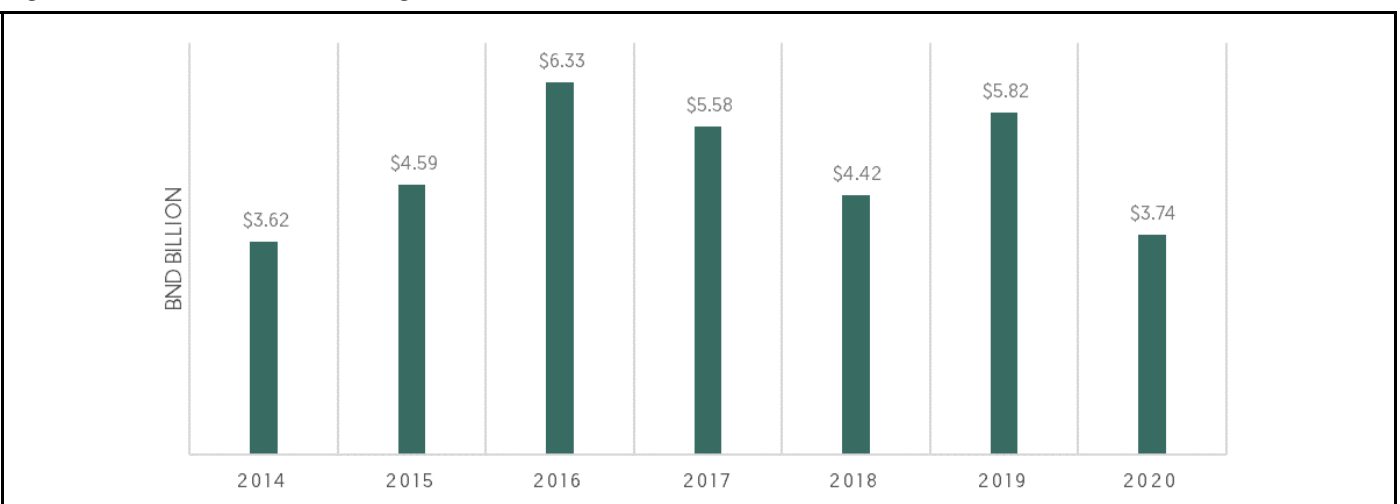
Figure 38 illustrates the total assets under management (AUM) managed by CMSL holders since 2014. 2020 showed a downward trend in total AUM by 35.7% y-o-y at BND3.74 billion. This may be attributed to clients' attitude and sentiment during the COVID-19 pandemic. It was reported that majority of the total AUM was invested into foreign bonds and sukuk (78%), and foreign treasury bills (15%) in 2020. While the remaining

Figure 37: Number of Regulated Persons under SMO



Source: AMBD

Figure 38: Total Assets Under Management: 2014-2020 (in BND billion)



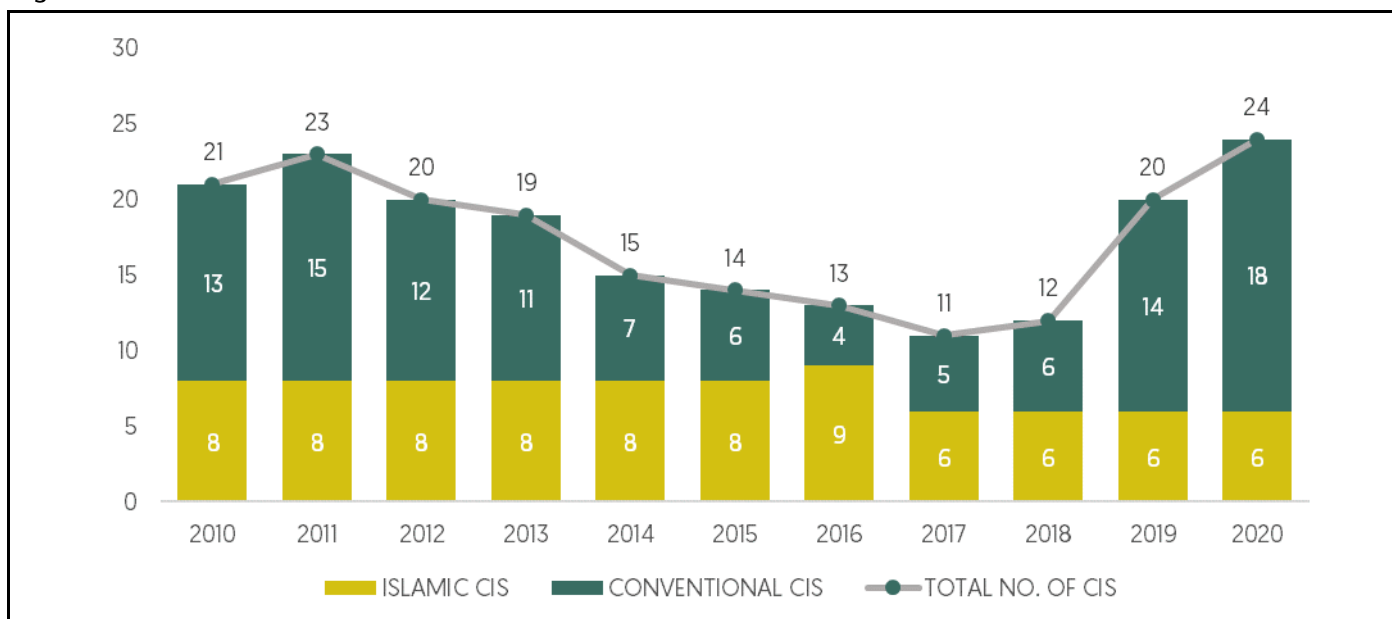
Source: AMBD

total AUM was invested into foreign equities [2%]; other foreign securities [2%]; and foreign deposits [3%].

Collective Investment Schemes

At year-end 2020, a total of 24 Collective Investment Schemes [CIS] were regulated under the SMO, comprising of 5 publicly recognised Islamic CIS, one licenced private Islamic CIS and 18 publicly recognised conventional CIS (Figure 39). There were 3 new CIS recognised under the SMO in 2020 including 1 fund that is aligned with a Sustainable and Responsible Investment strategy.

Figure 39: Total Number of CIS: 2010-2020



Source: AMBD

3.4.2 Regulatory Development

Box 4. Highlights of Regulatory Policy Development in the Capital Market Sector

At present, the prudential requirement for capital market intermediaries is the minimum financial requirement imposed to those licenced, which is to be maintained at all times. A Risk-Based Supervision [RBS] framework was recently adopted and implemented in late 2019. AMBD continues to assess risk levels of licence holders under the SMO through onsite inspections and offsite supervisions including issuance of a series of self-assessment questionnaires with the first one issued to licence holders in September 2020.

In general, weak corporate governance and investor protection of licence holders may undermine financial stability of a company. As such, the following notices and guidelines were issued with the aim to enhance the rules and regulations under the SMO to ensure that regulatory objectives are met.

i. Notice and Guideline on Outsourcing for Capital Markets Services Licence Holders

The Notice and Guideline on Outsourcing for Capital Markets Services Licence Holders was issued on 15 April 2020. The Notice sets out additional requirements to section 161(4)(c) of the SMO aiming to ensure that CMSL holders have the necessary organisational arrangements in respect of outsourcing of important operational functions. In addition, the Guideline was introduced to provide more guidance for complying with the requirements.

ii. Guideline on Handling of Conflict of Interest Upon Promoting Research Report

The Guideline on Handling of Conflict of Interest Upon Promoting Research Report was issued on 24 December 2020.

The Guideline aims to provide guidance to persons who conduct the regulated activity of giving or offering investment advice and who produce or disseminate research reports to any investors or potential investor concerning securities or issuers of securities, whether in electronic, print or other form. It also aims to ensure effective controls and management of conflict of interest when producing or disseminating research reports.

iii. Investor Compensation Scheme (ICS)

A second consultation paper on Investor Compensation Scheme (ICS) was issued on 4 May 2020. The aim of the consultation paper is to gather feedback from relevant stakeholders on some of the main ICS features namely contribution, compensation and levy. The ICS aims to provide protection to eligible investors in Brunei Darussalam by way of compensation in the unlikely event that a regulated person under the SMO is unable to meet its financial obligations.

4

Special Studies

4.1 Securing Financial Stability during COVID-19 Situation in Brunei Darussalam

Brunei Darussalam confirmed its first COVID-19 case on 9 March 2020. As of 31 December 2020, the national tally for total cases stood at 157, comprising of 149 recoveries and 3 deaths. This box article will elaborate on the measures taken by AMBD to ease the financial burden on businesses and individuals affected by the pandemic as well as to ensure the stability of the financial sector as a whole.

Relief Measures for the Banking Sector

With support from AMBD, a set of interim measures were undertaken by members of the Brunei Association of Banks (BAB) from 1 April 2020 to 30 December 2020 which focused to alleviate the financial distress of affected businesses and individuals from the COVID-19 pandemic (Table 20).

Table 20. Banking Sector Interim Measures

For Businesses	For Individuals Including Self-Employed
<p>a. Deferment of principal repayment on:</p> <ul style="list-style-type: none"> loans / financing hire purchase facilities limited to motor vehicle loans/ financing 	<p>a. Deferment of principal repayment on:</p> <ul style="list-style-type: none"> Personal loans / financing Property loans / financing (for home ownership and property investment) Hire purchase facilities limited to motor vehicle loans/ financing
<p>b. Trade and payment transaction fee waivers for eligible business sectors, from 1 April to 30 September 2020:</p> <ul style="list-style-type: none"> Tourism Hospitality / event management Restaurant / cafes (food & beverages) Air transport Food importers Medical Supplies importers 	<p>b. Restructuring up to 10 years on:</p> <ul style="list-style-type: none"> Personal loans / financing Hire purchase facilities limited to motor vehicle loans/ financing
	<p>c. Conversion of outstanding credit card balances to term loans / financing of up to 3 years, for individuals employed in business sectors including self-employed</p>
<ul style="list-style-type: none"> Waiver of related fees and charges including processing fees on deferment / restructuring / conversion of credit card facility. This excludes third party fees and charges. Waiver of all local online interbank fund transfers for all customers from 1 April to 30 September 2020. The waiver period has been extended for another 6 months which is until 31 March 2021. 	

Source: AMBD

Note:

i. Eligibility criteria includes existing loans/financing that are not past due for more than 90 days as well as adequate proof of affected income affected.

ii. Applications are further subjected to the individual banks' assessment, due diligence and internal credit policy.

iii. Applications must be submitted to financial institutions by 30 December 2020.

In conjunction with the interim measures, a Notice on Temporary Regulatory Measures was also issued by AMBD on 15 April 2020 to all banks and finance companies. The notice provides a framework to allow banks and finance companies to assist affected customers including the concessionary regulatory treatment for the specific assistances.

As of 31 December 2020, a total of 2,014 applications were approved, with an overall outstanding amount of BND557.1 million (Table 21). Most of the assistance came in the form of deferment and with most applicants being granted the maximum 12-month deferment. Based on estimated data, only 106 accounts (5%) have exited the assistance under the interim measures.

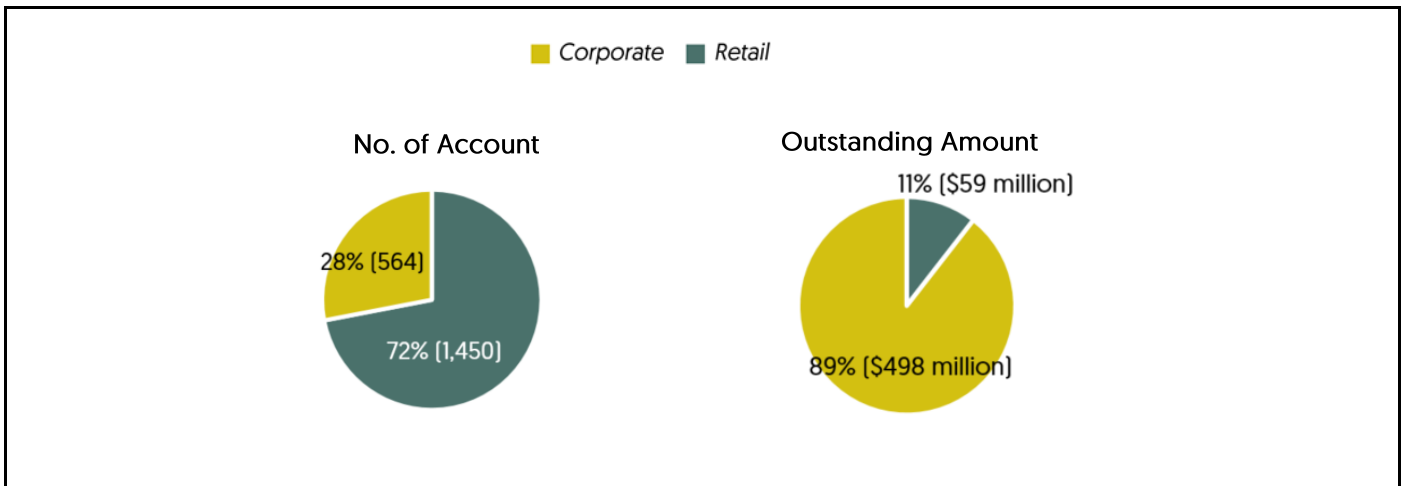
Table 21: Statistics on Interim Measures: 31 December 2020

Types of Assistance	Approved Applications	Outstanding Amount [BND million]
Total	2,014	557.1
Deferment	1,964	556.6
Restructuring	13	0.3
Conversion of Credit Card Balance	37	0.2

Source: AMBD

While the bulk of successful applicants came from the retail sector, a large proportion of the total amount outstanding is represented by the corporate sector (Figure 40).

Figure 40. Banking Sector Interim Measures: Breakdown by Sectors



Source: AMBD

In facilitating the implementation of the interim measures undertaken by the banking sector, AMBD also extended wide-ranging support to banks' activities and operations during the challenging period. The assistance to the banks / finance companies include: -

i. Flexibility in the regulatory classification of credit/financing facilities

On a temporary basis, AMBD provided flexibility to banks and finance companies on the regulatory treatment for the implementation of specific assistance under the interim measures. With this temporary flexibility, banks and finance companies are allowed to provide assistance to affected customers without adverse implications to loan/financing classification. This flexibility also aims to foster consistency in supervisory reporting and monitoring of asset quality of the banks and finance companies.

ii. Extension of loan / financing tenors up to 10 years

As part of the set of interim measures, AMBD provided exemption for banks and finance companies to restructure an unsecured personal credit financing facility or hire purchase facilities from 6 years and 7 years respectively to a maximum tenor of up to 10 years.

iii. Requirements of Single Borrowing Limit

Noting that commercial entities may be requesting for temporary additional funds during the challenging period, AMBD will provide special consideration for any applications on the maximum single borrowing limit (SBL) of 50%. Nevertheless, applications from banks will be considered on a case-to-case basis.

iv. Submission of Regulatory Returns

In enabling the banks to operate efficiently amidst the COVID-19 pandemic outbreak in Brunei, AMBD has provided

flexibility for submission of regulatory returns which includes the revision of frequency and deadlines of specific returns.

v. Waiver of transaction charges on Automated Clearing House (ACH) and Real Time Gross Settlement (RTGS) transactions

In facilitating the public convenience during the implementation of strict social distancing measures, the wider use of existing digital payment platforms for payments and transactions were encouraged and promoted. In this regard, all related transaction charges for ACH and RTGS were waived by both AMBD and the banks on a temporary basis.

Relief Measures for Money-Changing Sector

In May 2020, AMBD introduced a relief measure to the money-changing sector in which money-changing licencees were allowed to make payment of the annual licence fee in two phases upon renewal of licence. In light of the severe impact to the sector, AMBD subsequently introduced a temporary regulatory relief measure through the issuance of a Notice on Temporary Regulatory Relief Measure for Money-Changing Business on 15 October 2020 where money-changing licencees were granted a one-time 80% reduction to the annual money-changers' licence fee which aims to further assist money-changing licencees to weather the pandemic.

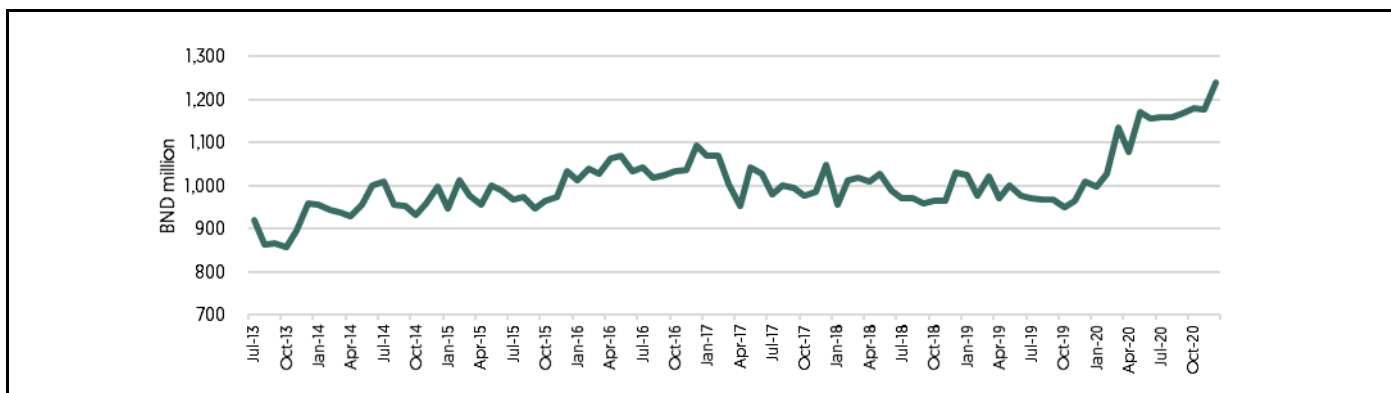
Moving Forward

AMBD continues to monitor the developments of the COVID-19 pandemic and remains vigilant of its impact to the financial sector and the wider economy. In light of the uncertain global and domestic environments, AMBD stands ready to implement additional measures, as and when necessary, to safeguard the financial stability of Brunei Darussalam.

4.2 Primer on Brunei Darussalam's Payments Landscape

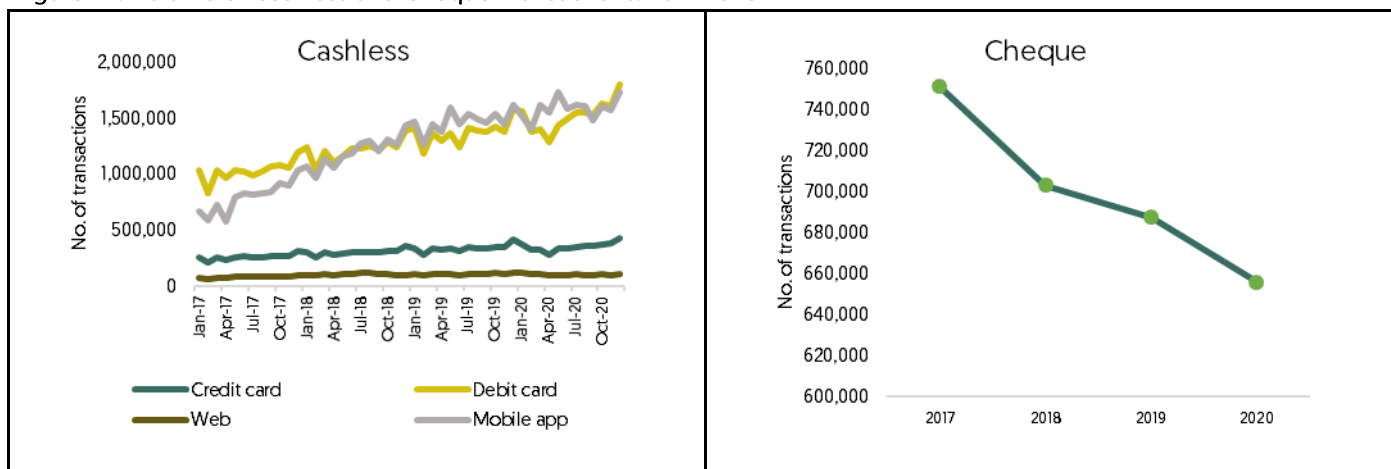
The domestic payments industry has seen numerous changes over the years. Though cash remains widely used (Figure 41), cashless payment methods have generally been well-received by consumers and market players (Figure 42). AMBD has been a proponent of cashless payments since its establishment, exemplified by the National Payment and Settlement System (PSS) project which gave Brunei Darussalam its first electronic interbank payment system, and more recently the issuance of the Digital Payment Roadmap for Brunei Darussalam 2019-2025 (DPR). The DPR expands on Pillar 3 of the Brunei Darussalam Financial Sector Blueprint (FSBP) 2016-2025, which calls for an "E-Payment Economy". These initiatives guide the direction of AMBD's policies on payment systems, that not only aims to promote the usage of digital payments but also to reduce the reliance on cash by providing both market players and consumers with the ability to make and receive payments digitally, using both bank and non-bank payment services. This article discusses the existing modes of payments in the country, AMBD's role and initiatives in the payments ecosystem, and factors that may impede the uptake of digital payments.

Figure 41. Active Currency in Circulation: July 2013-October 2020 (in BND million)



Source: AMBD

Figure 42. Volume of Cashless and Cheque Transactions: 2017-2020



Source: AMBD

Cash and Cheques

Looking at Figure 41, though coronavirus-related fears have driven people and businesses to hoard cash, active currency in circulation (CIC) was already on a rising trend since before the outbreak. This should not deter efforts to promote digital payments however, as the cost of cash handling is high and there are security issues associated with cash or paper money such as counterfeit and fraud, giving banks and merchants an incentive to reduce these costs by encouraging low-cost digital payment methods. Additionally, Figure 42 suggests a declining trend in the usage of cheques. Though digital payments are not perfect substitutes of cheques, declining use of cheques is a positive sign in the drive towards encouraging greater uptake of digital payments.

Account to account (P2P) transfer

P2P money transfers have become increasingly common in Brunei Darussalam over the past few years. These are typically fund transfers between two individuals, where a sending party transfers funds to a receiving party by entering the receiving party's account details, or other identifier, into a banking interface- usually a mobile banking

application or an internet banking website. P2P transfers have proven popular due to the convenience of transferring from a smart device, including personal computers and smart phones.

Payment Cards

Payment card offerings include debit cards, credit cards, and cash or ATM cards. These cards are predominantly issued by banks with international card scheme branded cards, i.e. VISA, Mastercard and UnionPay. Newer cards may have Near Field Communications (NFC) chips embedded allowing for NFC (contactless) payments where, instead of inserting the card into the payment card terminal, the card is simply brought into contact (or tapped) with the terminal. At the point of writing, payment card terminals are offered only by Bank Islam Brunei Darussalam (BIBD) and Baiduri Bank Berhad (Baiduri) in Brunei Darussalam. This is activity known as “merchant acquiring” as it allows merchants to accept payments from consumers who wish to pay using their payment cards.

QR Code Payments

Quick Response (QR) code payments have seen a sharp rise in uptake internationally in recent years. Customers use mobile applications on their smartphones to scan QR codes at the point-of-sale (POS), or on each other’s phones.

This mode of payment provides convenience to the consumer by doing away with the need to carry a physical wallet with them. There are several QR code Payment Service Providers (PSPs) in Brunei Darussalam including BIBD and Pocket. QR codes may be cheaper and easier for merchants to implement at POS (for example, by printing the QR codes), compared to the costs associated with traditional payment infrastructure such as payment terminals.

Government Payments

The national e-Payment Gateway (ePG) serves as a gateway service for government billers wishing to accept payments digitally. It allows banks to offer government billing options through their digital interfaces (e.g. banking apps and internet banking sites). ePG started with three government billers and could potentially include 60 other government agencies. It was established in line with the objectives of the e-government initiative as its efficiency and ease-of-use would help increase adoption of e-services in the country. Currently, some government payments are also made by cheques.

AMBD’s Role and Initiatives in the Payments Ecosystem

One of AMBD’s principal objectives is to assist in the establishment and functioning of efficient payment systems and to oversee them (AMBD Order, 2010). Over the past seven years, AMBD’s Payment and Settlement System (PSS) function has developed and now operates Brunei Darussalam’s world-class portfolio of interbank systems – the Real Time Gross Settlement (RTGS) system, Automated Clearing House (ACH), and the Central Securities Depository (CSD). These systems facilitate the interbank settlement of large value or urgent payments, cheques, account-to-account funds transfers and securities transactions.

The Payment System Oversight (PSO) function was later established in July 2019 to spearhead regulatory and developmental efforts and has since begun the execution of initiatives to create the appropriate regulatory framework. This will include licencing and approval of products and services, customer protection measures, as well as prudential safety measures.

As mentioned above, the DPR outlines initiatives to further enhance the domestic payment ecosystem. A key project under the DPR is the Digital Payment Hub project, which aims to improve interoperability for transactions initiated on mobile devices such that any user of mobile payments in Brunei Darussalam can interact with any other user, regardless of which PSP or mobile network provider they use. This may expand the selection of digital payment methods to include alternatives like QR payments, which may be a lower cost option for local stakeholders to use compared to other existing digital payment methods. Essentially the Hub will be a shared infrastructure that will enable integration between multiple payment systems and channels, making the payment experience as seamless as possible for consumers .

Issues and Challenges

Cash is still the preferred mode of payment in Brunei Darussalam as demonstrated in **Figure 41** .

There remains a substantial amount of work to be done in educating the public and increasing awareness of digital payments in Brunei Darussalam. Consumers must come to understand the benefits of speed, convenience and safety that digital payments can bring compared to cash. At the same time, payment service providers must have robust cybersecurity and safeguard measures in place to ensure the integrity of these digital transactions and data protection for the users. This will be essential in building trust in digital payments. These efforts should cover as many socio-economic segments as possible to ensure inclusiveness, which will aid in the uptake of digital payments.

A vibrant payment ecosystem requires numerous players and stakeholders to flourish – both providers and users of payment services. To instill competition in the market, there should be several PSPs (banks and non-banks) operating on a level-playing field. At present the market is dominated by the banks. Consumers can benefit from more choices and competitively priced products as well as value-added services. However, the absence of interoperability may cause fragmentation of the already small market, therefore harmonisation of payment standards and various systems for interoperability is a crucial element in development efforts for better efficiency.

Acceptance of digital payments at the POS (both physical locations and online) remains limited. The observed reluctance may be due to several factors, one of which is the surcharge imposed by some businesses for payments made by payment cards. Businesses are not supposed to pass on the surcharges to consumers, which has been reiterated by AMBD. Such merchant behaviour has led to lower acceptance of digital payments in favour of cash. This implies there is market need for cheaper means of cashless payments for merchants, which may lead to more extensive use of QR code payments, especially for smaller and micro-merchants.

Another factor affecting acceptance is the availability and accessibility of network infrastructure. In order to accept digital payments, merchants will need to maintain network access as a recurring cost e.g. fixed line or mobile access costs. These costs may hinder the acceptance of digital payments. The speed and stability of network is another important factor to ensure reliability to transact payments digitally, otherwise the merchants and consumers will just resort to cash for immediate settlement of payments at the POS.

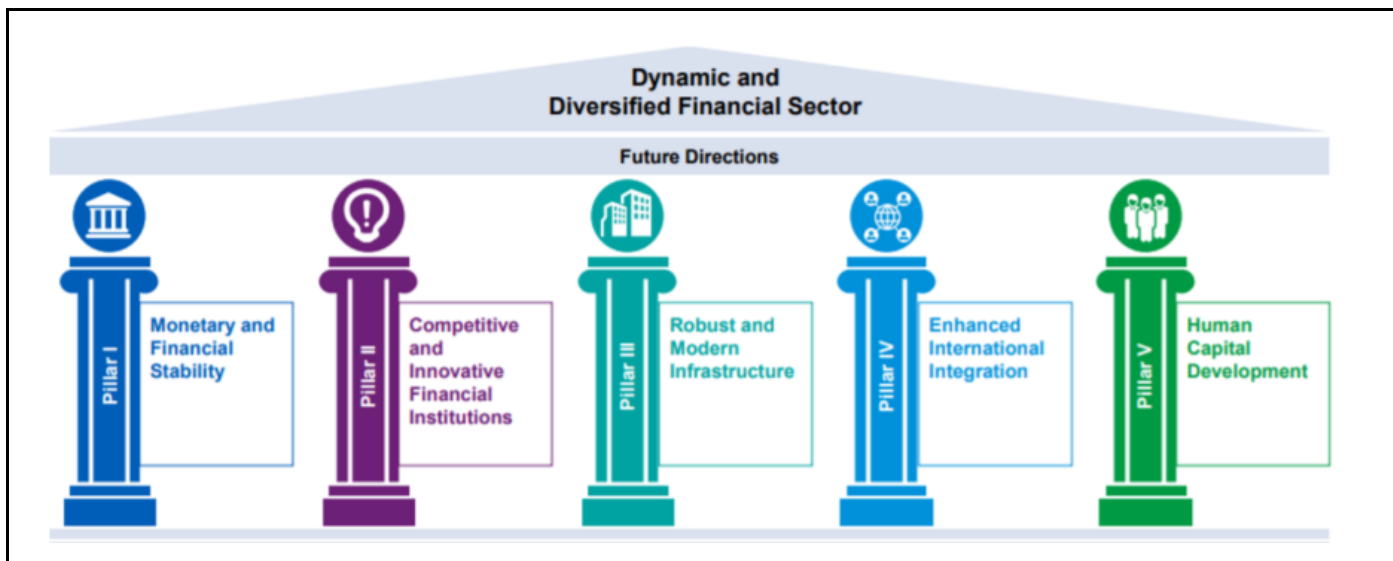
Costs of accepting digital payments are borne by the businesses/merchants. These include costs related to merchant acquirer's merchant services, payment terminal maintenance services, account management and such costs are likely to be passed onto the consumers in one form or another such as in the pricing of the goods and services offered. High costs, both to merchants and consumers, are detrimental to digital payment uptake. However, it is these same parties who are benefitting from the digital payment services, and they are the only sources of revenue for the providers. As such, a balance will need to be struck between cost and benefit.

4.3 Mid-Term Review of the Brunei Darussalam Financial Sector Blueprint (2016-2025)

AMBD published the Brunei Darussalam Financial Sector Blueprint (FSBP) 2016-2025 in 2016. The Blueprint sets out a vision of a dynamic and diversified financial sector for Brunei Darussalam by 2025 to support the Wawasan 2035 goal of transforming Brunei Darussalam into a diversified, dynamic and sustainable economy.

The FSBP outlines five broad strategies namely 'Pillars': Pillar I - Monetary and Financial Stability; Pillar II - Competitive and Innovative Financial Institutions and Services; Pillar III - Robust and Modern Infrastructure; Pillar IV - Enhanced International Integration; and Pillar V - Human Capital Development.

Figure 43. Financial Sector Blueprint (FSBP) 2016-2025 Pillars



Source: AMBD

Progress and Achievements

In 2016, AMBD produced five-year Strategic Action Plans (SAPs) to implement the policy recommendations outlined in each Pillar. Since 2016, much of AMBD's efforts have focused on safeguarding financial stability through enhancing regulation and strengthening supervision. In addition to safeguarding financial stability, enhancements were also made to provide a conducive environment to allow for greater innovation, development and overall growth of the financial sector.

Pillar I: Monetary and Financial Stability

As part of AMBD's efforts in facilitating a conducive environment for the development of a more efficient money market in Brunei Darussalam, AMBD has introduced AMBD Islamic Bills (I-Bills) Programme which is aimed to support the effective and efficient liquidity management for the banks, and widen the list of available money market instruments. As of 31 December 2020, AMBD has issued BND300 million worth of short-term AMBD I-Bills since the maiden issuance on 22 October 2020.

In supporting the effective and efficient liquidity management of banks and facilitating the smooth functioning of the financial system, the introduction of Overnight Standing Facilities allows banks to obtain Brunei Dollar liquidity from AMBD, against sufficient eligible collateral on an overnight basis, and also allows banks to place excess deposits in Brunei dollars with AMBD on an overnight basis.

Recognising the importance of public trust in the financial sector, AMBD has vastly advanced the standards of financial regulations in recent years. AMBD has made significant progress in its commitment to observe the Basel Core Principles and this includes the implementation of the Basel II framework where all three pillars have been introduced to the banks. AMBD also introduced a corporate governance framework for banks, insurance companies and takaful operators to increase the level of professionalism in the management of the respective businesses and to ensure the interests of all stakeholders are protected, in line with international standards.

With the increasingly complex nature and risks associated with the financial sector, AMBD has enhanced its supervision by adopting a risk-based supervision framework for banking, insurance/takaful, capital market as well as specialised

market. The methodology focuses more on the nature, size, complexity and risk profile of the institutions. In strengthening the credit and underwriting risks as well as to establish a sound and effective system to manage risks in the financial institutions, AMBD has issued a risk management framework to banking and insurance/takaful sectors. AMBD also established a risk-based Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) supervision programme based on the results of a national risk assessment.

On macroprudential and financial surveillance, AMBD has developed the surveillance tools to analyse the health, soundness and vulnerabilities of the financial system as a whole. AMBD conducted macro stress tests to understand and identify any potential sources of systemic risk and estimate the potential losses to capital under adverse macroeconomic conditions or shocks. To further strengthen the resilience of the banking sector and overall stability of the financial sector, AMBD has also developed a framework for domestic systemically important banks (D-SIBs) in Brunei Darussalam. This framework aims to identify and better manage the risks posed by systemically important banks which may cause spillover effects to the financial system and the economy in case they face challenges.

In 2020, AMBD completed the study on the implementation of Countercyclical Capital Buffer (CCyB) framework. The primary objective is to use a capital buffer to achieve the broader macroprudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. In addition, AMBD also completed a conceptual paper on Financial System Stability Index (FSSI) where this index would shed further insights into the stability of our financial system with greater detail that can help to identify any possible sources of instability.

Pillar II: Competitive and innovative financial institutions and services

In the area of Islamic finance, AMBD introduced the Syariah Governance Framework (SGF) and the Islamic Syariah Audit Framework (ISAF) to strengthen the governance and operations of Islamic Financial Institutions, in line with Islamic finance best practices. The development of Islamic finance has continued to progress further with the emerging adoption of digitalisation. The ICD-Refinitiv Islamic Finance Development Report 2020 revealed that Brunei Darussalam ranked 11th performing Islamic finance markets out of 135 countries and top 3 within the ASEAN region.

AMBD has also issued Notice on Market Conduct to ensure that their customers have an accurate and holistic understanding of their products and services in order to make informed decisions. Apart from that, to establish a consistent and comprehensive product disclosure regime, AMBD issued Guidelines on Product and Transparency Disclosure which were aimed at improving information disclosure to retail consumers on products and services offered by banks, insurance and takaful operators to promote the fair treatment of customers, facilitate consistency of disclosure and avoid selling malpractices of products and services offered. Further, AMBD also issued a Notice for The Establishment of a Complaints Handling Function Within Financial Institutions which require financial institutions to establish a complaints handling function that provides financial consumers with an accessible, independent, fair, accountable, timely and efficient means for resolving complaints with regard to their financial transactions.

In developing the capital market, AMBD has been actively laying out the groundwork by introducing relevant rules and regulations, developing the regulatory framework and supporting the establishment of the Brunei Darussalam Securities Exchange. Amongst others, regulatory framework development includes the issuance of the Notice on Equity Based Crowdfunding Platform Operators in 2017, which aimed to grow the capital market sector by enabling an alternative source of funding particularly for start-up and small businesses. Notice on Peer to Peer Financing Platform Operators was issued in 2019 which provides requirements for those who wish to operate peer to peer financing platform in the country. The establishment of Brunei Darussalam Capital Market Association (BCMA) in 2017 marked a significant milestone in capital market development as it avails a platform for all Capital Markets Services Licence holders to meet and work together with AMBD to promote and enhance financial and investment literacy and support domestic capital market development.

In supporting digital distribution for Insurance and Takaful products, AMBD has issued Guidelines on Online Distribution for Insurance and Takaful. The Guidelines is also aimed to protect policyholders' interests when conducting insurance-related transactions online.

In efforts to facilitate a FinTech ecosystem for Brunei Darussalam, AMBD introduced FinTech Regulatory Sandbox to allow FinTech products and services to be tested and experimented using innovative solutions in a relaxed regulatory

environment. In developing this area, AMBD leverages regional cooperation and has signed a FinTech Cooperation Agreement with the Monetary Authority of Singapore (MAS) to enable sharing of information and to encourage joint innovation projects. In addition, AMBD issued the revamped Fintech Regulatory Sandbox Guidelines on 9 December 2020. It also published a White Paper on the State of FinTech in Brunei Darussalam to raise awareness to the public about the FinTech ecosystem in Brunei Darussalam and provide recommendations for stakeholders in developing the FinTech ecosystem.

Pillar III: Robust and Modern Infrastructure

Significant advances have been made in laying the foundations for a robust and modern financial market infrastructure. In 2017, AMBD completed the National Payment and Settlement System Project which provided 3 different systems for the benefit of the financial sector. The Real-Time Gross Settlement (RTGS) system was implemented in November 2014 and is the first electronic interbank payment system implemented in Brunei Darussalam. With the RTGS system in place, banks can immediately send large value and urgent payment to another bank for their own account or on behalf of their customers where the fund transfer takes place in a safe and secure network environment.

The Automated Clearing House (ACH) system was implemented in May 2016 to allow participant banks to send and receive cheques in electronic form and images used for clearing and settlement. This system has improved the time taken for cheque clearing from 3 days to 2 days. Direct Credit transfer was introduced in March 2017 to allow electronic transfers of multiple low value payments in batches through the ACH system. The introduction of Direct Credit has led to a growth in electronic transfers which is seen as an alternative for a low-cost and convenient payment method.

The Central Securities Depository (CSD) system was also implemented in May 2017 to provide an electronic platform for the registration of Government Sukuk and maintaining electronic records of debt securities holdings for financial institutions. Subsequently, auctions for new issuance of securities and secondary trading can be performed in the CSD system.

In December 2018, AMBD published the Digital Payment Roadmap for Brunei Darussalam 2019-2025 to further drive digital transformation in the payments industry. The strategies contained in the Roadmap focus on 3 key strategic areas of (i) balancing regulation and innovation; (ii) adoption of open digital payment; and (iii) increasing public awareness and education. AMBD expects a paradigm shift where there will be more collaboration between AMBD and relevant stakeholders in developing platforms for enabling the growth of financial technology and the emergence of new financial products and services. At the same time, AMBD will continue to strengthen the financial industry's technology risks and cybersecurity management by providing Notices and Guidelines to financial institutions and supervising technology risk and cybersecurity in financial institutions through on-site and off-site assessments.

Other financial infrastructure such as the Credit Bureau and the Collateral Registry have also been developed to further improve access to credit. One notable development was the enactment of the Secured Transactions Order and its accompanying regulation in 2016. Following the improvements to the Credit Bureau services, in particular the introduction of credit score, as well as the operationalization of the Collateral Registry System, Brunei Darussalam was ranked first among other 189 economies in the "Getting Credit" indicator of the World Bank's Doing Business Report 2020.

Pillar IV: Enhanced International Integration

In order to capitalise on the opportunities and potential of the region, AMBD is working and preparing to participate in trans-border initiatives that will enable the growth of the financial sector. As part of the ASEAN Economic Community (AEC) initiatives, Brunei Darussalam adopted a common standard for payment integration in ASEAN by being the first country in ASEAN to adopt the ISO20022 financial messaging standard, which is widely recognised as the standard of the future. The ASEAN+3 Bond Market Guide 2017 for Brunei Darussalam was also published in the Asian Development Bank's website to promote awareness and to provide a source of information offering a comprehensive explanation of Brunei Darussalam's bond market.

In our efforts to strengthen bilateral cooperation and relationships, AMBD signed 11 Memorandum of Understandings

to facilitate exchange of information, capacity building and home-host supervisory activities. Additionally, in further enhancing international integration, AMBD is actively involved in the Regional Comprehensive Economic Partnership (RCEP) negotiations with the aim to advance economic cooperation and improve existing economic linkages. AMBD is also involved with the final adoption of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which is aimed to increase economic growth, enhance trade and investment, promote innovation and support human capital development amongst partner countries.

In the areas of cyber security, AMBD has formally joined the Digital Technology Network (DTN) of the ASEAN Cybersecurity Resilience and Information Sharing Platform (CRISP), which allows for close collaboration via a trusted regulatory community platform that facilitates information sharing and discussion on mitigation actions and policy recommendations that can be developed for the benefit of member countries.

Pillar V: Human Capital Development

Improving financial literacy is paramount in growing Brunei Darussalam's financial services sector. To that end, AMBD facilitated the establishment of Brunei Darussalam's National Financial Literacy Council (NFLC) which was formally established on 14 November 2017. The NFLC's vision is to equip Bruneians with the knowledge and skills to make better decisions in their personal finances for their financial well-being where they should be able to identify and decide financial products/services most suited to their needs.

AMBD continues to leverage on the Brunei Institute of Leadership and Islamic Finance (BILIF) to create a skilled talent pool for the financial sector and to promote higher levels of professional standards. As the Centre of Excellence for the finance industry, BILIF conducts high-quality programmes and events and collaborates with leading regional and international organisations such as the International Centre of Education in Islamic Finance (INCEIF) of Malaysia, the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB), Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), and Chartered Bankers Institute (CBI), among others, covering a wide range of topics including Islamic finance, capital market, financial planning, human resources and leadership.

Priorities Moving Forward

To further foster the growth of Islamic finance in Brunei Darussalam, AMBD will continue to encourage diverse product innovation and formulate strategies that will strengthen the quality of Islamic Finance as envisaged in the FSBP.

In line with the FSBP, AMBD and the Brunei Insurance and Takaful Association (BITA) is actively pursuing the objective of increasing market penetration. As such, efforts were seen from the industry to introduce the use of digital distribution channel, where in 2019, Takaful Brunei Am (TBA) started to offer their Musafir Takaful via its mobile app. Similarly, Insurans Islam TAIB also started offering quotations via its mobile app and social media app. It is expected that the industry will be continue to explore further online distribution channels for the next 2 years.

In terms of facilitating payments and financial inclusion, AMBD is championing the use of FinTech to further enhance and improve financial products and services whilst upholding and maintaining supervisory standards according to international best practices. Among the strategic actions taken on this front is the establishment of a Digital Payment Hub. AMBD is currently working together with relevant stakeholders and industry players to facilitate the establishment of a Digital payment hub to enable digital transactions in real-time as well as expedite instant payments. Additionally, AMBD is also looking into providing guidance on the use of e-KYC in the financial sector in order to improve customers onboarding and also their overall experience.

With the increasing new risks from technology and digital financial services, AMBD has been revising existing Notice and Guidelines on technology and is developing new guidelines to enhance management of technology risks, cybersecurity and emerging technology of the financial institutions. Moreover, AMBD is strengthening its supervisory framework to effectively supervise adoption of technology in the financial industry and to assess the management of technology risks of the financial institutions.

AMBD will continue to strengthen the cyber security resiliency and controls that are in place for our information technology services to the financial sector through the adoption of best practices and keeping abreast with the latest cyber threats and current trends. Collaborations with other stakeholders in the areas relating to cyber security, particularly with the newly established Cyber Security Brunei (CSB) will be explored to improve the overall readiness of

the financial sector against cyber threats.

Moving forward, with the rapidly changing global and financial landscape, AMBD will continue to adapt and focus on executing strategic actions to achieve the FSBP's vision of having a dynamic and diversified financial sector by 2025. Discussions and engagements with relevant stakeholders are continuously being conducted to ensure success in planning as well as in implementing the strategic actions, where appropriate.

Additionally, to further support human capital development, AMBD is also looking to conduct a study to identify the gaps and skills required for future jobs in the financial sector and to identify the current and future manpower needs in this sector.

AMBD will also continue to undertake initiatives to align with international regulatory standards which include introducing new or adopting existing international standards that are consistent with Syariah principles. Given that there is a strong nexus between Islamic finance and sustainable finance, AMBD aims to explore this area for financial sector development. Nonetheless, whilst Islamic finance is utilised for the purpose of sustainable development, leveraging technological innovations can be an added advantage to achieve efficiency as well as be more financially inclusive. AMBD will continue to work with relevant stakeholders and industry players to develop a more vibrant and competitive FinTech ecosystem in Brunei Darussalam. In furthering capital market development, AMBD continues its efforts in enabling critical elements in the capital market ecosystem that also support and complement the forthcoming securities exchange.

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Annex

1. Aggregated Banks' Balance Sheet: 2016-2020 (in BND million)
2. Aggregated Banks' Income and Expense Statement: 2016-2020 (in BND million)
3. Aggregated Finance Companies' Balance Sheet: 2016-2020 (in BND million)
4. Aggregated Finance Companies' Income and Expense Statement: 2016-2020 (in BND million)

Annex 1. Aggregated Banks' Balance Sheet: 2016-2020 (in BND million)

Total Assets	2016	% of total	% change	2017	% of total	% change	2018	% of total	% change
Cash and Bank Balances	2,495	13.9	10.4%	2,207	12.6	-11.5%	1,966	10.7	-10.9%
Placement with banks	7,783	43.4	23.6%	7,684	43.9	-1.3%	8,413	45.9	9.5%
Investments	2,016	11.2	-4.9%	2,210	12.6	9.6%	2,199	12.0	-0.5%
Loans/Financing (Net)	5,204	29.0	-12.0%	4,940	28.3	-5.1%	5,273	28.8	6.7%
Other Assets	456	2.5	0.5%	442	2.5	-2.9%	480	2.6	8.5%
Total Assets	17,953	100.0	5.3%	17,484	100.0	-2.6%	18,331	100.0	4.8%
Total Liabilities	2016	% of total	% change	2017	% of total	% change	2018	% of total	% change
Deposits	15,094	84.1	6.0%	14,859	85.0	-1.6%	15,331	83.6	3.2%
Borrowing and Other Liabilities	551	3.1	-5.3%	699	4.0	26.9%	972	5.3	39.1%
Capital Funds	2,308	12.9	4.2%	1,927	11.0	-16.5%	2,028	11.1	5.3%
Total Liabilities	17,953	100.0	5.3%	17,484	100.0	-2.6%	18,331	100.0	4.8%

Total Assets	2019	% of total	% change	2020	% of total	% change
Cash and Bank Balances	2,722	14.5	38.5%	2,361	12.9	-13.3%
Placement with banks	7,586	40.4	-9.8%	6,768	37.0	-10.8%
Investments	2,115	11.3	-3.8%	2,958	16.2	39.9%
Loans/Financing (Net)	5,711	30.4	8.3%	5,662	31.0	-0.8%
Other Assets	626	3.3	30.4%	523	2.9	-16.4%
Total Assets	18,759	100.0	2.3%	18,272	100.0	-2.6%
Total Liabilities	2019	% of total	% change	2020	% of total	% change
Deposits	15,831	84.4	3.3%	14,629	80.1	-7.6%
Borrowing and Other Liabilities	736	3.9	-24.3%	1,328	7.3	80.5%
Capital Funds	2,192	11.7	8.1%	2,315	12.7	5.6%
Total Liabilities	18,759	100.0	2.3%	18,272	100.0	-2.6%

Annex 2. Aggregated Banks' Income and Expense Statement: 2016-2020 (in BND million)

	2016	% of total average assets	% change	2017	% of total average assets	% change	2018	% of total average assets	% change
Total Income	645	3.7%	9.6%	663	3.9%	2.7%	649	3.8%	-2.1%
Total Expenses	380	2.2%	12.3%	378	2.2%	-0.4%	366	2.1%	-3.3%
Profit before tax	175	1.0%	-23.4%	230	1.3%	31.2%	260	1.5%	13.4%
Profit after tax	146	0.8%	-23.3%	198	1.2%	35.9%	219	1.3%	10.9%

	2019	% of total average assets	% change	2020	% of total average assets	% change
Total Income	707	4.1%	9.1%	613	3.4%	-13.4%
Total Expenses	394	2.3%	7.6%	344	1.9%	-12.6%
Profit before tax	310	1.8%	19.1%	274	1.5%	-11.7%
Profit after tax	268	1.6%	22.0%	236	1.3%	-11.7%

Annex 3. Aggregated Finance Companies' Balance Sheet: 2016-2020 [in BND million]

Total Assets	2016	% of total	% change	2017	% of total	% change	2018	% of total	% change
Cash and cash equivalents	173	8.3	-2.2%	188	9.0	8.5%	168	8.4	-10.8%
Placements	220	10.5	-10.1%	316	15.1	43.7%	264	13.2	-16.6%
Investments	3	0.1	0.0%	2	0.1	0.0%	-	-	0.0%
Loans/Financing (Net)	1,650	79.0	-7.7%	1,540	73.7	-6.6%	1,522	76.3	-1.2%
Other Assets	43	2.1	-20.5%	44	2.1	1.8%	40	2.0	-8.8%
Total Assets	2,089	100.0	-7.7%	2,090	100.0	0.0%	1,993	100.0	-4.6%
Total Liabilities	2016	% of total	% change	2017	% of total	% change	2018	% of total	% change
Deposits	1,622	77.6	-1.4%	1,767	84.6	9.0%	1,658	83.2	-6.2%
Borrowing and Other Liabilities	68	3.3	-61.4%	55	2.6	-19.1%	85	4.3	54.0%
Capital Funds	399	19.1	-9.6%	267	12.8	-33.0%	250	12.5	-6.5%
Total Liabilities	2,089	100.0	-7.7%	2,090	100.0	0.0%	1,993	100.0	-4.6%

Total Assets	2019	% of total	% change	2020	% of total	% change
Cash and cash equivalents	164	8.5	-2.2%	155	7.4	-5.6%
Placements	208	10.8	-21.1%	355	17.0	71.0%
Investments	-	-	0.0%	-	-	0.0%
Loans/Financing (Net)	1,508	78.7	-0.9%	1,545	73.7	2.4%
Other Assets	37	2.0	-7.3%	41	2.0	10.2%
Total Assets	1,917	100.0	-3.8%	2,096	100.0	9.3%
Total Liabilities	2019	% of total	% change	2020	% of total	% change
Deposits	1,572	82.0	-5.2%	1,784	85.1	13.5%
Borrowing and Other Liabilities	92	4.8	8.1%	49	2.3	-46.9%
Capital Funds	254	13.2	1.6%	264	12.6	3.8%
Total Liabilities	1,917	100.0	-3.8%	2,096	100.0	9.3%

Annex 4. Aggregated Finance Companies' Income and Expense Statement: 2016-2020 (in BND Million)

	2016	% of Average Assets	% change	2017	% of Average Assets	% change	2018	% of Average Assets	% change
Total Income	124.2	5.9	-15.8%	117.3	5.5	-5.5%	118.8	17.7	1.2%
Total Expense	55.2	2.6	-9.4%	48.7	2.3	-11.7%	56.8	8.5	16.6%
Profit before Tax	67.5	3.2	-21.8%	61.9	2.9	-8.4%	60.2	9.0	-2.7%
Profit after Tax	55.0	2.6	-28.9%	50.9	2.4	-7.6%	49.2	7.4	-3.2%

	2019	% of Average Assets	% change	2020	% of Average Assets	% change
Total Income	118.5	6.3	-0.2%	116.0	5.8	-2.1%
Total Expense	56.5	3.0	-0.5%	55.6	2.8	-1.6%
Profit before Tax	63.8	3.4	6.0%	62.9	3.2	-1.5%
Profit after Tax	52.1	2.8	5.8%	57.8	2.9	10.8%

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