اءوتوريتي مونيتاري بروني دارالسلام

AUTORITI MONETARI BRUNEI DARUSSALAM

# 2018 Financial Stability **Report**

Information published in this report is based on non-audited data as of December 2018.

# CONTENTS

# Abbreviations

| | |
|---|---|
| ACH | Automated Clearing House |
| ADB | Asian Development Bank |
| ADO | Asian Development Outlook |
| AMBD | Autoriti Monetari Brunei Darussalam |
| APR | Annualised Profit Rate |
| ASEAN | Association of Southeast Asian Nations |
| bbl | barrel |
| BAB | Brunei Association of Banks |
| BND | Brunei Dollar |
| Btu | British thermal unit |
| CAR | Capital Adequacy Ratio |
| CSD | Central Securities Depository |
| CSPS | Centre for Strategic and Policy Studies |
| DEPD | Department of Economic Planning and Development |
| ECE | Economic Census of Enterprises |
| EIR | Effective Interest Rate |
| FCY | Foreign Currency |
| FDI | Foreign Direct Investment |
| FinTech | Financial Technology |
| GDP | Gross Domestic Product |
| GFSR | Global Financial Stability Report |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standard |
| ISAF | Internal Syariah Audit Framework |
| IMF | International Monetary Fund |
| LNG | Liquefied Natural Gas |
| MAS | Monetary Authority of Singapore |
| MSMEs | Micro, Small, and Medium Enterprises |
| NPLF | Non-Performing Loans/Financing[1] |
| OPEC | Organisation of Petroleum Exporting Countries |
| ROA | Return on Assets |
| ROE | Return on Equity |
| RPPI | Residential Property Price Index |
| RTGS | Real-Time Gross Settlement |
| SAB | Syariah Advisory Body |
| SFSB | Syariah Financial Supervisory Board |
| SGF | Syariah Governance Framework |
| SMEs | Small and Medium-sized Enterprises |
| TAIB | Tabung Amanah Islam Brunei |
| TDSR | Total Debt Service Ratio |
| US | United States |
| USD | United States Dollar |
| y-o-y | year-on-year |

[1] Loans refer to lending facilities provided by conventional banks to customers to fulfil their cash requirement based on loan contracts with interest. Financing refers to financing facilities offered by Islamic banks to customers to fulfil their cash requirement through the buying and selling of an asset with profit on the basis of Syariah principles.

# List of Figures, Tables & Boxes

## Figures



## Tables

## Boxes

# Foreword
by the Managing Director

بسم الله الرحمن الرحيم

السلام عليكم ورحمة الله وبركاته

The world economy and financial markets faced several major risks and uncertainties in 2018, notably the escalation of trade conflicts, particularly the United States (US)–China trade war, increased political and policy uncertainties such as the possibility of a disorderly or no-deal Brexit, and the re-emergence of concerns about fiscal space in some highly-indebted European countries. In addition, a slowdown of global economic growth, notably in Europe and China, the tightening of the US interest rate, and volatile oil and gas prices have had adverse impacts on the global economy and financial markets, particularly on exchange rates, bond and stock markets as well as on market sentiment and investors' confidence. So far, Brunei Darussalam has faced limited impact of the escalating trade war, due to its limited export exposure to both the US and China, and marginal involvement in the global production supply chain. Nonetheless, escalating trade frictions and elevated emerging market risks may reduce investors' business confidence and risk appetite, and thus adversely impact foreign direct investment inflows to emerging economies.

Autoriti Monetari Brunei Darussalam (AMBD) is working closely with the financial sector to ensure continued resilience of the domestic financial sector. With the mandate of ensuring financial stability and fostering financial sector development, we face the challenge of both external and domestic vulnerabilities. Therefore, in promoting a stable and efficient financial sector, AMBD undertakes continuous assessment and analysis of financial stability. This could provide early identification of emerging vulnerabilities in the financial sector, and thus, allowing for early corrective actions to address these vulnerabilities and avoid a costly financial crisis.

I am proud to share that the performance of the banking industry has improved in 2018, as reflected by the rise in assets, deposits, loans/financing, and profits. Finance companies also recorded healthy growth. High capitalisation and ample liquidity of the banking sector reflect low liquidity risk, capacity for future expansion, and resilience towards potential increased vulnerabilities and risks, particularly credit quality risk as reflected by the prevailing non-performing loans/financing ratio. However, the low loans/financing to deposit ratio may have implications on the profitability of the sector.

On top of this, AMBD has taken several regulatory measures to align the regulatory framework for the banking industry to international standards. These measures include the introduction of a risk-based supervision approach as prescribed by the Basel Committee on Banking Supervision to promote the safety and soundness of the financial sector. In this regard, AMBD has issued several guidelines and regulatory notices to banks to implement the "Basel Core Principles for Effective Banking Supervision", as well as to improve corporate governance. Furthermore, in order to align the banks' financial reporting to the international standards, effective from 1 January 2018, all banks and finance companies in Brunei Darussalam have been required to fully comply with the "International Financial Reporting Standard (IFRS) 9" in their audited financial statements.

Against this background, it is my pleasure to release AMBD's first Financial Stability Report. I am confident that this report will be useful to all stakeholders including financial market participants as well as other concerned domestic or international institutions and individuals. The report presents an annual assessment of the financial sector's risks and vulnerabilities, particularly in banks and finance companies. The analysis presented in the report covers the year 2018, whereas the data for previous years (up to 2010) have been used for purposes of comparison, where appropriate. The main goal of the report is to critically assess, identify, and analyse the scale and scope of potential risks and vulnerabilities of the financial sector and to evaluate the financial sector's capacity to address them. By detecting and analysing potential risks, communicating such assessments, and creating awareness of important issues and challenges, I hope this report will be an important avenue for enhancing the understanding of emerging vulnerabilities in the financial sector of Brunei Darussalam.

In closing, I would like to extend my appreciation to AMBD staff whose tireless dedication and contributions have made the preparation of this report possible.

*Hajah Rokiah Haji Badar*

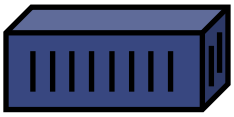
*Managing Director*

# 01 INTERNATIONAL AND DOMESTIC MACROECONOMIC DEVELOPMENTS

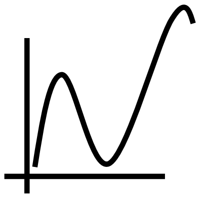
In 2018, the world economy and international financial markets faced significant risks such as the ongoing trade war between the US and China; turmoil in the financial markets of several emerging market economies; slowdown in global economic growth, particularly in China and Europe; further tightening of the US interest rate; and high volatility of the oil price. As a result, short-term risks to global financial stability had escalated. The ongoing US–China trade war is expected to have a significant impact on trade- and export-dependent economies, but a limited impact on Brunei Darussalam. Due to the lower than expected global growth outlook and higher than expected US oil production, the crude oil price is expected to average USD66 per barrel in 2019 compared to USD72 in 2018.

Brunei Darussalam's economy witnessed a positive real gross domestic product (GDP) growth of 1.3% in 2017, followed by a growth of 0.1% in 2018. The positive growth in 2018 was driven primarily by an improvement in the activities in the non-oil and gas sector with 1.7% growth, whereas the real GDP of the oil and gas sector contracted by 1.1%. In spite of the positive economic growth in 2017 and 2018, narrow money, broad money, and private sector credit, vis-a-vis, the nominal GDP has declined in both years. The economy is projected to grow further in 2019 and 2020 and thus will have positive implications to the performance and stability of the banking sector in 2019.

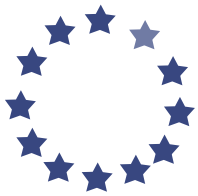
## Major International Risks in 2018



Trade Frictions

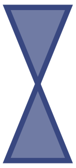


Emerging Market Economies

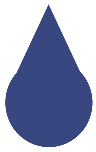


No-Deal Brexit

Further Tightening of US Rates



Global Economic Slowdown



Volatile Oil and Gas Prices

## Domestic Economic Performance in 2018

**0.1%**

Overall Growth

**-1.1%**

Oil and Gas Sector Growth

**1.7%**

Non-Oil and Gas Sector Growth

## 1.1 International Macroeconomic Developments

In 2018, the world economy and financial markets faced several major risks, such as:

- escalation of trade frictions between the US and China;
- elevated risks of emerging market economies and worries about their economic health;
- a disorderly or no-deal Brexit;
- further tightening of the US interest rate;
- a slowdown in global economic growth exemplified by weaker economic performance in China and Europe; and
- volatile oil and gas prices.

Other risks include:

- a bear market in global stock markets;
- the looming end of quantitative easing in the euro area;
- Italy's budget crisis;
- weakness in the banking sector in Europe; and
- continued geopolitical tensions, particularly in the Middle East.

These risks can have profound implications to the health of the global economy and financial markets, particularly of emerging markets and developing economies.

The growth of the world economy, the Euro area, emerging and developing Asia, and China slowed in 2018 compared to 2017.

From 2017 to 2018, growth in the world economy fell from 3.8% to 3.6%, the Euro area from 2.4% to 1.8%, emerging and developing Asia from 6.6% to 6.4%, and China from 6.8% and 6.6% (IMF 2019).

The International Monetary Fund (IMF), in its October 2018 World Economic Outlook (IMF 2018b), revised its global and regional growth projections downwards for 2019 against the projections in its World Economic Outlook in April 2018 (IMF 2018a). These downward projections were primarily due to the escalated trade tensions between the US and China, and the associated rise in policy uncertainty, rising trade barriers, a reversal of capital flows to emerging market economies with weaker external positions, and a more than expected rise in interest rates in the US. According to the IMF's October 2018 projections:

- 2019 global growth of 3.7%, revised down from April 2018's projection of 3.9%;
- 2019 US growth of 2.5%, revised down from April 2018's projection of 2.7%; and
- 2019 Euro area growth of 1.9%, revised down from April 2018's projection of 2.0%.

Amongst major ASEAN economies, growth in Malaysia (5.9% in 2017 to 4.7% in 2018), the Philippines (6.7% to 6.2%) and Singapore (3.9% to 3.2%) slowed in 2018 compared to the previous year whereas it improved in Viet Nam (6.8% to 7.1%), and Indonesia (5.1% to 5.2%) (IMF, 2019).

The Asian Development Bank (ADB) lowered its 2018 and 2019 growth forecast for Asia in its Asian Development Outlook (ADO) update in September 2018 (ADB 2018b) against its update in April 2018 (ADB 2018a) due primarily to the US–China trade war, and tightening global liquidity:

- 2019 developing Asia growth of 5.8%, revised down from 5.9%;
- 2019 China growth of 6.3%, revised down from 6.4%;
- 2018 Indonesia growth of 5.2%, revised down from 5.3%;
- 2019 Malaysia growth of 4.8%, revised down from 5.0%;

- 2019 Philippines growth of 6.7%, revised down from 6.9%; and
- 2018 Viet Nam growth of 6.9%, revised down from 7.1%.

Since March 2018, trade conflicts have escalated, particularly between the US and China.

**Box 1** presents the impact of the escalating US–China trade war on the world economy, the major Asian economies, and Brunei Darussalam.

Meanwhile, in the US, the Federal Reserve raised its benchmark interest rate four times in 2018 reaching 2.5% in December 2018.

Further tightening of monetary policy in the US as a response to rising inflation could have an adverse impact on global financial markets, particularly on the exchange rates, and the bond and stock markets of emerging economies.

In response to the US tightening, several emerging economies have also tightened their monetary policies to arrest the rapid fall of their currencies. They may need to further tighten in the future which, in turn, could affect their growth due to increased borrowing costs. Furthermore, rapid increases in oil and gas prices in the future will exacerbate the situation for oil-importing emerging market economies due to rising inflation and deterioration in their current account balance.

**Box 1. Impact of US–China Trade War**

The US and China launched a set of tariffs on each other's goods in March 2018. Effective from 23 March 2018, the US imposed a 25% duty on steel imports and a 10% tariff on aluminium imports worldwide. On 6 July and 24 September 2018, the US imposed tariffs exclusively on USD250 billion in imported Chinese goods. In retaliation, China imposed tariffs exclusively on USD110 billion in imports from the US, which include major American agricultural exports including soybeans.

The US and China agreed to a temporary truce to de-escalate trade tensions, following a meeting on 1 December 2018. Both the US and China agreed to refrain from increasing tariffs or imposing new tariffs for 90 days until 1 March 2019, during which they would work towards a trade deal. Effective from 1 January 2019, China removed an additional 25% tariffs on US autos and 5% tariffs on certain US auto parts for 3 months. There may be downside risks to global growth if there is no trade deal between the US and China and significant additional tariffs or duties are levied on most imported goods. Major international organisations have recognised the adverse impact of the escalating US–China trade war and have reduced their projected economic growth of the world economy and major advanced and developing economies in 2019 and 2020.

According to the OCBC Bank (2018):

- Japan, South Korea, Taiwan, and Hong Kong with close connections to China’s production supply chain will witness maximum risk as they export mostly intermediate goods to China.
- Among the five major ASEAN economies, Malaysia, Thailand, and Singapore with large volumes of trade with China and strong connections to the transnational supply value chain of the manufacturing sector would be comparatively more affected and may witness significant downside risk in growth by US tariffs on Chinese goods. The reason is that within the global manufacturing supply chain, these countries are suppliers of intermediary parts and components which are then assembled in China. The final products are exported to predominantly western markets, particularly the US.
- Indonesia, the Philippines, and Viet Nam, on the other hand, will witness lower downside risks.

A research study by Zoller-Rydzek and Felbermayr (2018) shows that due to the trade war, US consumer prices on affected Chinese products will increase by an average of 4.5%.

On the export front, Brunei Darussalam may face limited impact of the escalating US–China trade conflict due to its low export exposure to both the US and China, particularly in oil and gas exports, and marginal involvement in the global production supply chain. Slowing world economic growth including that of emerging economies may impact oil demand and price adversely and thus the oil exports and revenue of the country.

Furthermore, escalating trade frictions and elevated emerging market risks are expected to reduce investors' business confidence and appetite for riskier assets, and thus can adversely impact foreign direct investment (FDI) inflows to emerging economies including Brunei Darussalam.

Source: AMBD staff

### 1.2 International Financial Market Developments

In terms of risks to global financial stability, the IMF's Global Financial Stability Report (GFSR) of October 2018 observed that the short-term risks to global financial stability have somewhat risen since the GFSR of April 2018 with several countries witnessing increased policy uncertainties (IMF 2018c).

In the second half of 2018, emerging market economies witnessed significant turmoil in their financial markets whereby in August–October, several emerging market countries witnessed the sell-off in their financial markets triggered by financial turmoil in Turkey and Argentina, which witnessed a near crisis situation.

As a result of the increased perception of emerging market economies' risk, particularly during the second half of 2018, the exchange rates of several emerging market economies such as Argentina, Brazil, China, Indonesia, India, the Philippines, South Africa, and Turkey have declined significantly against the US dollar.

European markets have not been performing well with downside risks due primarily to weak economies, particularly in Germany and Italy, the possibility of a no-deal Brexit, the weak banking sector in Europe, and the budget performance of Italy.

According to the assessment of the IMF, in terms of debt burden, total nonfinancial sector debt in countries with systemically important financial sectors witnessed a large increase from USD113 trillion in 2008, which was more than 200% of their combined GDP, to USD167 trillion in 2017 — about 250% of their combined GDP (IMF 2018c).

### 1.3 International Oil and Gas Price Developments

The international oil and gas markets has witnessed high volatility in terms of prices and production (**Table 1**). After a significant fall of 46.1% in 2015, the average Brent crude oil price rose by 15.8% in 2016 compared to 2015. It further increased by 21.3% in 2017 reaching an average of USD54.75 per barrel compared to USD45.13 per barrel in 2016. This was due mainly to improved compliance to the extended production cut agreement by both Organisation of Petroleum Exporting Countries (OPEC) and non-OPEC countries, coupled with a rising demand for oil to support higher global growth.

The average Brent oil price rose further in 2018 to reach USD71.94 per barrel — a 31.4% rise compared to 2017. The average Henry Hub gas price also rose, albeit marginally in 2018 to USD3.06 per metric million British thermal units (Btu) from USD3.02 per metric million Btu in 2017.

The future of oil prices will depend on the dynamics of US oil production, Iranian sanctions, OPEC production cuts, and slowing global growth, especially in emerging economies. The oil market is expected to witness higher volatility in the short term depending on the over- or under-supply of oil. In December 2018, OPEC and other major oil producers announced a supply cut of 1.2 million barrels a day from January 2019. This will positively impact the oil price in the short term to medium term.

According to the World Bank's oil price forecast for 2019, crude oil prices are expected to average of USD66 per barrel in 2019, which is 8.2% lower than the average in 2018 (**Table 1**). This is due primarily to the lower than expected global growth outlook and higher than expected US oil production (World Bank, 2019b).

## 1.4 Domestic Macroeconomic, Monetary, and Credit Developments

**Table 2** presents the trends in real and nominal GDP by the oil and gas and non-oil and gas sectors, unemployment and inflation during the period 2014–2018.

After four years of negative economic growth during the period 2013–2016, Brunei Darussalam's economy witnessed an upturn starting in 2017 with real GDP growth of 1.3% followed by growth of 0.1% in 2018.

The positive growth in 2018 was driven primarily by an improvement in the activities in the non-oil and gas sector with 1.7% growth. In spite of a 31.0% year-on-year (y-o-y) rise in the average Brunei Darussalam oil price, the real GDP of the oil and gas sector in the same year contracted by 1.1% primarily due to a lower production of oil.

Reflecting the high volatility of international oil and gas prices and the uncertainty over the volume of oil and gas production in both existing and new production facilities remain major factors that impact the economic growth of Brunei Darussalam.

### GDP Growth by Sectors

Table 3 exhibits the trends in real GDP growth (y-o-y) by economic sectors during 2014–2018. In terms of the performance of the major sub-sectors of the non-oil and gas sector, construction, transportation, finance, and other services posted weaker growth or decline of 6.0%, –0.3%, –6.7%, and 1.4%, respectively in 2018 compared to growth of 9.3%, 4.6%, 1.5%, and 2.2% in 2017. On the other hand, non-oil and gas manufacturing, wholesale and retail trade, and education, health, and government sectors witnessed improved performance in 2018 recording growth of 13.8%, 2.3%, and 2.6% compared to 1.5%, 0.7%, and 0.0% in 2017, respectively with positive implications to the health of businesses in these sectors (**Table 3**).

The IMF has projected Brunei Darussalam's real GDP growth at 4.8% in 2019 and 6.6% in 2020. The current account balance (% of GDP) is predicted to be 13.0% in 2019 and 13.0% in 2020. In view of the above positive projections, the performance and stability of the banking sector are expected to improve in 2019–2020.

After witnessing deflation for the last 3 years, inflation picked up slightly at a positive level of 0.1% in 2018 (**Table 2**).

## Monetary and Credit Developments

### Money Supply

Even though positive economic growth was recorded in 2017 and 2018, all three indicators of monetary and credit developments, namely broad money, narrow money and private sector credit, vis-a-vis the nominal GDP, have declined since 2017.

Banking sector intermediation is limited as evident from the decreasing trend in y-o-y change in the private sector's credit during 2016–2018 and the low loans/financing to deposit ratio compared to other Asian countries, varying from 42.9% in 2015 to 35.6% in 2018 (**Table 7**). Broad money in percentage of nominal GDP witnessed a contraction during the same period (**Table 4**).

Reflecting the above trend, the demand for loans/ financing fell by 16.1% from BND6,115.1 million in 2015 to BND5,130.0 million in 2017 recovering modestly to BND5,450.5 million in 2018 — a rise of 6.2% compared to 2017 (**Table 7**).

**Table 1. Trends in Global Oil and Gas Prices: 2014–2018**

| Year | Units | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Average Brent Oil Price | (USD/Barrel) | 99.45 | 53.60 | 45.13 | 54.75 | 71.94 |
| | Year to Year Growth (%) | –8.5 | –46.1 | 15.8 | 21.3 | 31.4 |
| Average Henry Hub Gas Price | (USD/Million BTU) | 4.26 | 2.63 | 2.55 | 3.02 | 3.06 |
| | Year to Year Growth (%) | 14.3 | –38.4 | –2.7 | 18.1 | 1.5 |

Source: Bloomberg

**Table 2. Trends in GDP, Inflation, Unemployment, Oil and Gas Production and Prices: 2014–2018**

| Year (in BND million) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nominal GDP | 21,694.7 | 17,778.0 | 15,747.7 | 16,747.4 | 18,300.7 |
| Nominal Oil and Gas GDP | 13,930.2 | 10,119.7 | 8,284.7 | 9,233.1 | 10,728.7 |
| Nominal Non-Oil and Gas GDP | 7,764.4 | 7,658.3 | 7,463.0 | 7,514.3 | 7,571.9 |
| Real GDP | 18,701.1 | 18,695.0 | 18,136.5 | 18,377.3 | 18,387.1 |
| Real Oil and Gas GDP | 10,999.4 | 10,972.9 | 10,661.5 | 10,789.7 | 10,669.9 |
| Real Non-Oil and Gas GDP | 7,701.7 | 7,622.1 | 7,475.1 | 7,587.6 | 7,717.3 |
| **Year** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Number of Total Unemployed | 14,078 | - | - | 19,199 | 19,223 |
| Total Unemployment Rate (in % of total labour force) | 6.9% | - | - | 9.3% | 8.7% |
| Number of Local Unemployed | 13,561 | - | - | 18,185 | 19,063 |
| Local Unemployment Rate (in % of total labour force) | 9.0% | - | - | 11.5% | 11.6% |
| **Year Year-on-Year Percentage Change** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Real GDP[1/] | –2.3 | –0.6 | –2.5 | 1.3 | 0.1 |
| Real Oil and Gas Sector GDP | –3.7 | –0.2 | –2.8 | 1.2 | –1.1 |
| Real Non-Oil and Gas Sector GDP | –0.3 | –1.0 | –1.9 | 1.5 | 1.7 |
| Consumer Prices (period average, % change) | 1.2 | –1.0 | –0.7 | –0.2 | 0.1 |

Sources: AMBD and DEPD, Ministry of Finance and Economy
1/ Non-oil and gas GDP includes the downstream oil and gas related activities
Note: Non-Oil and Gas GDP is calculated based on Non-Oil and Gas GVA combined with taxes less subsidies on products

**Table 3: Trends in Real GDP Growth (year-on-year) by Economic Sectors: 2014–2018 (in percentage)**

| Year | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Real GDP | –2.3 | –0.6 | –2.5 | 1.3 | 0.1 |
| Oil and Gas Sector | –3.7 | –0.2 | –2.8 | 1.2 | –1.1 |
| Agriculture | 4.7 | 6.4 | –3.6 | –1.6 | –1.6 |
| Non-Oil and Gas Manufacturing | 3.5 | 0.5 | –1.5 | 1.5 | 13.8 |
| Construction | –22.0 | 4.8 | –6.6 | 9.3 | 6.0 |
| Wholesale and Retail Trade | –1.7 | 0.9 | –3.5 | 0.7 | 2.3 |
| Transportation | –4.3 | –4.1 | –9.1 | 4.6 | –0.3 |
| Finance | 2.6 | –3.1 | 9.6 | 1.5 | –6.7 |
| Other Services | –1.6 | –1.4 | –2.4 | 2.2 | 1.4 |
| Education, Health, and Government | 3.8 | –1.7 | –3.1 | 0.0 | 2.6 |

Source: DEPD, Ministry of Finance and Economy
Note: The oil and gas sector includes oil and gas mining, and manufacture of liquefied natural gas and methanol. Agriculture includes vegetables, fruit, and other agriculture; livestock and poultry; forestry; and fishery. Non-oil and gas manufacturing includes manufacture of wearing apparel and textiles, manufacture of food and beverage products, other manufacturing, and electricity and water. Transportation includes land transport, water transport, air transport, and other transport services. Other services includes communication, real estate & ownership of dwellings, hotels, restaurants, business services, domestic services, and other private services. Education, health and government includes education services, health services, and government services/public administration

**Table 4. Trends in Monetary and Credit Developments: 2014–2018 (in percentage of nominal GDP)**

| Year | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| M1 – Narrow Money | 20.3 | 26.3 | 29.7 | 26.3 | 23.4 |
| M2 – Broad Money | 67.5 | 80.8 | 92.6 | 86.7 | 81.6 |
| Private Sector Credit | 24.6 | 31.4 | 32.7 | 29.3 | 25.8 |

Source: AMBD

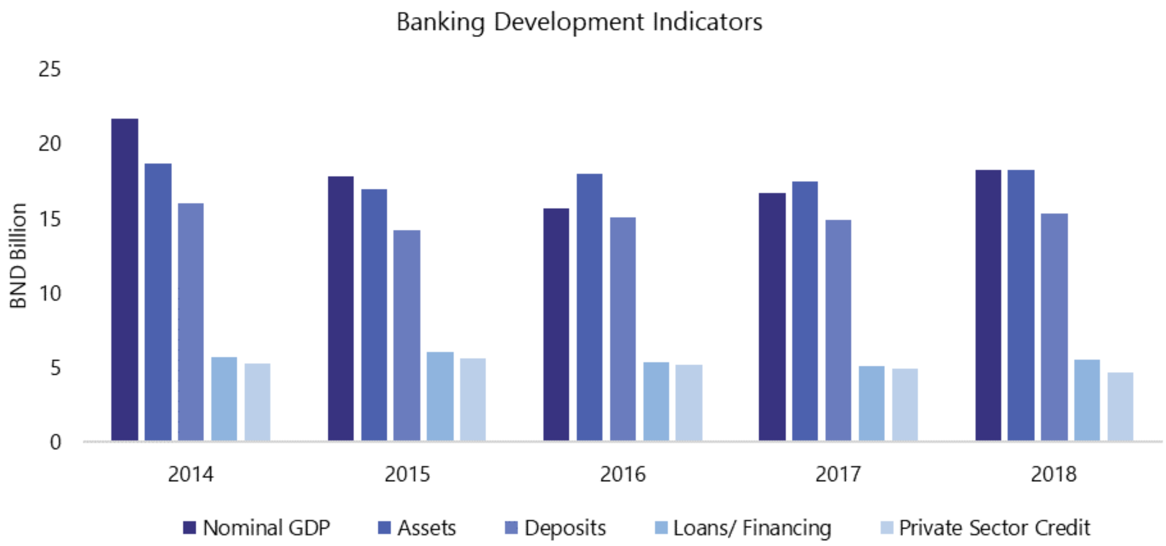
# 02
# BANKING SECTOR DEVELOPMENT

Banks remain well capitalised and liquid reflecting a capacity for future expansion, and resilience towards potential increased vulnerabilities and risks. Although the non-performing loans/financing (NPLF) ratio had been high, they can withstand the prevailing credit quality risk. The profitability ratios of the banking sector remained moderate with a healthy yield on assets.

In order to strengthen the financial sector, AMBD continued to adopt and implement several policies and regulations amongst others concerning financial stability, risk-based supervision in line with the Basel II guidelines, access to credit, implementation of the IFRS 9 guidelines, and Syariah compliance.

Reflecting positive economic growth in 2017 and 2018, the banking sector witnessed a rise in overall assets, deposits, and loans/financing in 2018. Households accounted for the major portion (42.2%) of deposits, which form core deposits or a stable source of funds for the banks.

A unique characteristic of Brunei Darussalam's banking sector is that households accounted for a major portion (53.3%) of credit in 2018. With respect to credit demand by economic sectors, the demand from the non-oil and gas sector remained a major contributor (75.9%) to total corporate credit. This has played a role to promote the diversification efforts of Brunei Darussalam away from the oil and gas sector.

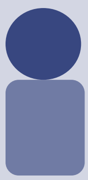



Source: AMBD

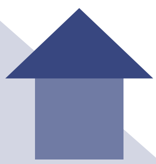
**Strengthening the Financial Sector**

- Implementing Basel II requirements
- Risk-Based Supervision
- FinTech Regulatory Sandbox Guidelines
- Implementation of IFRS 9
- Syariah Compliance for Islamic Financial Institutions

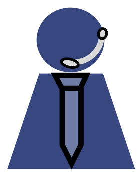
## Top 3 Loans/Financing in 2018



Personal Loans/ Financing



Residential Loans/ Financing



Services

## 2.1 Structure of the Banking Sector

The banking sector of Brunei Darussalam consists of a dual financial system, namely conventional and Islamic banks. At present, there are six conventional banks — five of which are foreign bank branches and one domestic commercial bank. In addition, there is another bank operating with a restricted licence in the country. Meanwhile, one Islamic bank and an Islamic trust fund undertake a variety of Islamic banking activities. **Table 5** presents the structure and institutional details of the banking sector in Brunei Darussalam.

The Islamic bank and trust fund accounted for a major portion of total banking assets. As of 2018, they accounted for 63.5% of total assets, 62.9% of total deposits, and 60.4% of total loans/financing of the banking sector (**Table 6**).

## 2.2 Banking Development

During 2014–2018, on average, assets, deposits, and loans/financing of the banking sector remained at BND17.9 billion, BND15.1 billion, and BND5.6 billion, respectively.

Following the positive economic growth in 2017–2018, the banking industry witnessed a rise in overall assets by 4.8%, deposits by 3.2%, and loans/financing by 6.2% compared to 2017 reaching BND18.3 billion, BND15.3 billion, and BND5.5 billion, respectively (**Table 7**). In terms of the relative size to the economy as measured by the ratio to nominal GDP, assets, deposits, and loans/financing fell in 2018 from the previous year, albeit only a slight fall for loans/ financing.

The private sector credit to GDP ratio indicates the health and development of the economy. After witnessing an increasing trend during 2014–2016 with a peak of 32.7% in 2016, private sector credit to GDP ratio continued to decline reaching 25.8% in 2018, indicating a low level of intermediation by banks.

After rising to a peak of 42.9% in 2015, the loans/ financing to deposit ratio fell significantly to 34.5% in 2017 again reflecting a low level of intermediation by the banks. This may be contributed by the weak demand of the borrowers. Nonetheless, it recovered moderately to 35.6% in 2018.

In terms of financial inclusion, the number of deposit accounts continued to increase each year from 616,206 in 2014 to 642,717 in 2018 except for 2017 which witnessed a marginal decline of 2.1% compared to 2016. On the other hand, the number of loans/financing accounts declined significantly by 34.5% from 247,486 in 2014 to 161,995 in 2018. This largely reflects the weak demand of borrowers and the consolidation of individual credit accounts by the banks from mid-2015.

## 2.3 Assessment of Health of the Banking Sector

The health of the banking sector can be assessed in terms of the following four categories:

- Capital Adequacy
- Credit Quality
- Income, Expenses and Profitability
- Liquidity

The following sections will present the analyses of the above four areas. This set of financial stability or financial soundness indicators could indicate the changes in the risk profile of the banking sector.

**Table 8** presents the trends in financial soundness indicators in the area of capital adequacy, credit quality, profitability, and liquidity for the period 2014–2018.

### Capital Adequacy

The banks have been, in general, well capitalised and in compliance with the Basel II minimum capital requirements.

The health of the banking sector in terms of capital is measured by three capital adequacy ratios (CAR), namely regulatory capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, and NPLF (net of specific provisions) to capital funds (**Table 8**).

CAR as measured by regulatory capital to risk-weighted assets remained high at around 21.0% during the period 2014–2016, decreasing to 18.1% in 2017 and rising slightly to 18.4% in 2018. Overall, the banks achieved the compliance of Basel II in terms of Tier 1 capital requirements where the ratio of Tier 1 capital to risk-weighted assets increased continuously reaching 23.2% in 2016 from 22.1% in 2014. The ratio declined to 18.3% in 2017, but then increased slightly to 19.2% in 2018.

The impact of NPLF on capital is measured through NPLF (net of specific provisions) to capital funds. The NPLF to capital funds ratio remained persistently high but at a manageable level in light of the well capitalised banks. The net NPLF to capital funds increased to 7.8% in 2016 from 6.1% in 2015, declining considerably to 4.4% in 2017 before rising again to 6.4% in 2018.

## Credit Quality

**Table 9** presents the trends in the gross and net amount of NPLF of the banking sector for the period 2014–2018.

The NPLF deteriorated continuously during the period 2014–2016 as reflected by the rise of the gross NPLF from BND287.3 million in 2014 to BND317.9 million in 2016. After decreasing significantly by 29.0% to reach BND225.7 million in 2017, the gross NPLF increased to BND259.2 million in 2018 reflecting an increased credit quality risk.

Reflecting the trend in the gross NPLF, the net NPLF soared by 34.3% in 2016 reaching BND180.4 million but plunged by 53.4% to BND84.0 million in 2017. Nonetheless, it rose again to reach BND129.9 million in 2018.

As exhibited in **Table 8**, the NPLF of the banks can be measured by three ratios, namely, gross NPLF, net NPLF (net of provisions), and provision coverage (specific provisions to total NPLFs).

During 2014–2018, the ratio of NPLF to total gross loans peaked in 2016 reaching 5.9% from 5.0% in 2014 — decreasing slightly in 2017 to 4.4% before further increasing to 4.8% in 2018.

This reflects a rising credit quality risk affecting the health of the banking sector. However, as explained earlier, the banks are adequately capitalised to withstand the prevailing credit quality risk. The net NPLF ratio followed similar trends as gross NPLF ratio, reaching 2.4% in 2018 after falling to 1.6% in 2017 from the peak of 3.3% in 2016.

Provision coverage (specific provisions to total NPLFs) witnessed high volatility — from 43.3% in 2016 to 62.8% in 2017.

The year 2018 witnessed a significantly lower coverage at 49.9% compared to 2017. This is a result of the implementation of the full IFRS 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 NPL portfolios. The overall decrease in provision coverage is due to the substantial increase in total NPL year on year. Specific provision remains relatively stable due to the secured nature of the NPL exposures.

## Income, Expenses and Profitability

*Trends in Income and Yield*

**Table 10** presents the trends in income and yields of the banking sector by type of assets, namely loans and advances, placements[2], and investments during the period 2014–2018. The yield on total interest/profit[3] related assets continued to improve during the period 2014–2018 reaching its peak at 3.5% in 2018. Reflecting the trends in the yield, total interest/profit income of the banking sector registered a rise during 2015–2018, reaching its peak at BND519.2 million in 2018.

The yield on loans/financing, on average, remained healthy at 5.7% during 2014–2018. It declined to 5.5% in 2016 from 5.9% in 2014, rising to 5.8% in 2018. Reflecting this trend, interest/profit income on loans/ financing witnessed a continuous decline during 2014–2017 from BND331.2 million in 2014 to reach BND294.7 million in 2017, rising moderately to BND306.3 million in 2018.

Interest/profit income on the placements registered a continuous growth during the period 2014–2018 reaching a peak of BND135.8 million in 2018 compared to BND55.1 million in 2014. This is due to a continuous improvement in its yield from 0.7% in 2014 to its peak at 1.8% in 2018.

The yield on investment registered high volatility ranging from 2.2% in 2015 to 3.4% in 2018. As a result, interest/profit income on investment witnessed high volatility varying from BND53.3 million in 2015 to BND77.1 million in 2018.

*Trends in Profitability and Expenses*

Profitability is an important financial stability indicator reflecting the health of the banking sector. Unusually high profitability may be a sign of excessive risk-taking or imperfectly competitive financial sectors, but profits that are too low can indicate a deterioration in credit quality and excessive expenses compared to income or intense competition.

In **Table 8**, the profitability of the banking sector is measured by three indicators: return on assets (ROA) (before tax), return on equity (ROE) (after tax), and efficiency ratio.

The profitability of the banking sector as measured by the ROA before tax remained moderate during the period 2014–2018. ROA decreased from 1.4% in 2014 to 1.0% in 2016, with a small increase to 1.3% in 2017 and then a further increase to 1.5% in 2018.

In addition, the profitability of the sector measured by the ROE (after tax) exhibited a similar trend to ROA. ROE decreased by 3.7 percentage points to 6.4% in 2016 from 10.1% in 2014, recovering modestly to 8.9% in 2017, and then significantly to 11.4% in 2018.

The efficiency of the banking sector as measured by "non-interest/profit expenses to gross income" deteriorated during 2014–2016 to reach 53.6% in 2016 compared to 50.0% in 2014. The ratio improved moderately to reach 48.1% in 2018. Further improvement in the efficiency through drastic reduction in non-interest expenses can enhance the income and profitability of the banking sector.

[2] Placements refer to securities that are easily convertible to cash. Placements are usually overnight with a maximum term of less than 12 months.

[3] Interest refers to a predetermined additional amount charged by a conventional bank on a loan extended based on the length of the credit period. Profit refers to the lawful profit that is earned by an Islamic bank based on Syariah compliant trading.

*Trends in Net Interest/Profit Income*

One of the important factors for the profitability of the banks is the magnitude of net interest/profit spread measured by the differential of the lending/financing and deposit rates. This section examines the trends in net interest/profit spread of the banking sector during 2017-2018.

**Table 11** exhibits the trends in the average savings and time deposit interest/profit rates of the banking sector by maturity during the period 2017–2018. **Table 12** presents the average lending/financing interest/profit rates of the banking sector by economic sectors during the same period.

In the household sector, the lending rates of residential housing and personal loans increased slightly from 5.10% and 6.11% in 2017 to 5.17% and 6.27% in 2018, respectively. In contrast, the rate for structural home improvements declined slightly during this period. For credit cards, the lending/financing rate recorded a slight rise to 14.39% in 2018 compared to 14.15% in the previous year.

Meanwhile for the corporate sector, except for the infrastructure and agriculture sectors, on average, the lending/financing rate of all sectors declined slightly in 2018 compared to 2017. The lending/financing rates in 2018 varied from 5.36% to 7.24% with a spread of 4.6 to 6.5 percentage points compared to the highest deposit rate of 0.77% for time deposit with 6-12 months duration.

## Liquidity

In **Table 8**, the liquidity of the banking sector is measured by four indicators: liquid assets to total assets, liquid assets to total deposits, liquid assets to demand and savings deposits (non-bank customers), and loans/financing to deposit ratio.

These indicators remained high in 2014–2018 reaching 51.7%, 61.8%, and 126.0%, respectively in 2018 from 53.9%, 62.8%, and 122.1% in 2014. This indicates low liquidity risk due to excess liquidity in the banking sector arising out of low intermediation.

On the other hand, the loans/financing to deposit ratio declined to 35.6% in 2018 from a peak of 42.9% in 2015.

## 2.4 Policies for Financial Stability and Major Supervisory Development

One of the recommendations of the Brunei Darussalam Financial Sector Blueprint 2016-2025 is in the area of the macroprudential policy: "AMBD will continue to monitor international practice in the use of macro-prudential policy, with a view, judiciously, to use macro-prudential tools to influence the rate of expansion in the financial sector, where that is considered necessary to maintain macro financial and monetary stability" (AMBD 2017).

**Box 2** presents recent policies adopted for financial stability and major supervisory and other financial sector development in Brunei Darussalam.

**Box 2. Recent Policies for Financial Stability and Major Supervisory and Other Financial Sector Development in Brunei Darussalam**

**1. Getting Credit**

Access to credit and better management of credit risk were improved by the enactment of the Secured Transaction Order in 2016 and the accompanying Secured Transactions Regulations, collectively referred to as "the Legislation" through the following reforms and regulations:

- established a unified legal framework for movable assets and a modern, notice-based collateral registry for movable property which aims to ease the access of credit to individuals and businesses, particularly the micro, small, and medium enterprises (MSMEs) by enhancing their ability to leverage their personal properties (movable assets) as an alternative source of funding for their working capital;
- introduced a functional and secured transactions system through establishing a national electronic collateral registry in AMBD that lists out security interests over personal properties;
- granted absolute priority rules for secured creditors inside and outside of insolvency proceedings and allowed for out-of-court enforcement; and
- strengthened legal rights of borrowers and lenders (World Bank 2018).

For improved access to credit information, AMBD also established the Credit Bureau in 2012. The Bureau collects and aggregates credit information from various sources and provides member banks and other institutions with references. AMBD has enhanced the services of the Credit Bureau with the introduction of a credit scoring system in 2018 that can promote better financing conditions in the country, through assisting lenders to better price credit risk. AMBD's provision of consumer and commercial credit scores to banks and other financial institutions can assist banks to better assess the credit risk of corporate and household borrowers and thus promote financial stability of the sector.

## 2. Regulation and Deregulation of Interest/Profit Rate

**Regulation of Rates**

Effective 6 March 2013, AMBD introduced regulations on credit and deposit rates as follows:

**The maximum effective interest rate (EIR) or annualised profit rate (APR) for credit facilities:**

| Fully Secured by Type of Security | Maximum EIR/APR Per Annum |
|---|---|
| Credit facilities against fixed deposits under lien to the bank (excluding credit cards) | 5.00% |
| Non-property credit facilities against property charged (mortgage) | 5.25% |
| Corporate credit facilities against the joint and several guarantees of directors (corporate guarantee) | 6.00% |
| Credit facilities against direct debt to salary/ pension assigned to bank (excluding overdraft) | 7.50% |
| **Sectors** | |
| Oil and gas-related to small and medium-sized enterprises | 5.50% |
| Credit facilities for national infrastructure projects | 5.50% |
| Small and medium enterprises | 8.00% |

**The minimum deposit or profit rates on Brunei Dollar deposits are as follows:**

| Deposit Type for BND Accounts | Minimum Rate Per Annum |
|---|---|
| Savings Account | 0.15% |
| Time Deposits – 1 Month | 0.20% |
| Time Deposits – 3 Months | 0.30% |
| Time Deposits – 6 Months | 0.45% |
| Time Deposits –12 Months | 0.75% |

**Deregulation of Rates**

In May 2017, AMBD deregulated loans/financing rates and time deposit rates so that all banks can price their products competitively. AMBD allowed the banks to price their loans/financing rates based on their internal risk appetites and the borrower's creditworthiness. Time deposit rates were also deregulated to allow the banks to price their deposit rates according to their funding needs.

However, the regulation of interest/profit rate on car loans/financing and of credit facilities against direct debt to salary/pension assigned to the bank (excluding overdraft) were maintained. At the same time, the regulation on savings deposits rates was also maintained.

**3. Household Loans/Financing and Credit Cards**

To mitigate growing credit quality risk amongst household borrowers as evident from deteriorating loans/ financing quality of household sector and to further strengthen the protection of consumers' interests, AMBD stipulated a limit on total debt service ratio (TDSR) for household loans/financing.

The AMBD policies on TDSR were as follows:

- In May 2015, AMBD issued a 60% TDSR limit to all customers applying for a loans/financing facility.
- In October 2015, AMBD issued an amendment to the earlier TDSR to include rental income and business income (sole proprietors) under the definition of gross monthly income; and to exclude credit cards secured by fixed deposits from the TDSR calculation.
- In August 2017, AMBD increased the TDSR limit from 60% to a maximum of 70% for new loans/financing facilities to finance the purchase or construction of properties such as houses only.
- In November 2017, AMBD issued notices to allow the regulated TDSR limit to be exceeded under certain circumstances for mortgage equity loans/financing facility; loans/financing facilities secured by cash/ fixed deposit under lien or principal protected investment products; and for customers with net monthly income of BND10,000 and above to be subjected to the internal TDSR policy of banks and finance companies.

In June 2015, a regulation was imposed pertaining to "Unsecured Personal Credit Facility". This regulation capped the value of loans/financing an individual can obtain at 18 times their net salary, as opposed to the previous limit of 12 times their gross salary. Individuals must also obtain insurance protection for each new or topped-up loans/financing. The regulation also provides flexibility to restructure or top-up an individual loans/financing when 50% of the original tenor has lapsed, subject to certain conditions.

More flexibility was introduced in 2015, with credit cards issuance no longer requiring a precondition of salary assignment. Credit cards secured by fixed deposits are also not included in the calculation of an individual's TDSR.

This policy together with the establishment of the Credit Bureau in 2012, contributed to the decline of indebtedness of the household sector. The household indebtedness as measured by personal loans/financing (including credit cards) declined by 30.4% from BND2.3 billion in 2010 to BND1.5 billion in 2018.

These regulatory reforms can hence further improve the resilience and stability of the financial sector.

### 4. Implementation of Basel Guidelines and Compliance with Core Principles

As part of AMBD’s commitment to enhance the regulatory framework for the banking industry that aligns with international standards such as the Basel Core Principles on Effective Banking Supervision guidelines by 2020, AMBD has made significant strides with the development of its Risk-Based Supervision Framework and issuance of several regulatory notices and guidelines.

AMBD issued several guidelines and notices to banks to implement the Basel Core Principles for Effective Banking Supervision as well as to improve corporate governance and on the appointment of key responsible persons.

In 2015, AMBD announced its commitment to implement the Basel II framework as an upgrade to its regulatory framework for all licensed banks including the Islamic Trust Fund, Perbadanan Tabung Amanah Islam Brunei (TAIB). The implementation of the Basel II framework is part of AMBD’s initiatives to achieve full compliance of the Basel Core Principles and commitment to ASEAN objectives such as the ASEAN Banking Integration Framework initiatives by 2020.

The Basel II framework consists of three pillars:

- Pillar I: Minimum capital requirement
- Pillar II: Supervisory review process
- Pillar III: Market discipline

AMBD has introduced the Pillar 1 requirement effective from 15 March 2017, which requires all the banks including Perbadanan TAIB to maintain a minimum capital adequacy ratio (CAR) of 10% as per the requirements under the Banking Order 2006 and the Islamic Banking Order 2008. AMBD’s capital adequacy framework has adopted the standardised approach from the Basel Committee’s International Convergence of Capital Measurement and Capital Standards document. The individual reporting of CAR is set on a monthly basis whilst the consolidated reporting for CAR is on a quarterly basis.

Under the Pillar 2 requirement, AMBD issued a Notice on Supervisory Review and Evaluation Process to all banks on 27 December 2018, which requires the banks to produce an Internal Capital Adequacy Assessment Process (ICAAP). In undergoing the ICAAP, the banks shall maintain an appropriate level of capital above minimum Pillar 1 requirements so that all risks of the banks are adequately covered. All banks including Perbadanan TAIB must submit their first ICAAP to AMBD no later than 30 June 2019. Thereafter, submissions are to be made no later than 31 March for every succeeding year.

A regulatory notice on Pillar 3 – public disclosure requirements was issued to all banks on 2 January 2018. The public disclosure requirement is applicable to all banks including Perbadanan TAIB in accordance with the disclosure prescriptions set by AMBD. The notice aims to enhance transparency for market participants in their assessment on each bank’s capital, risk profile, and risk management including capital adequacy. The first public disclosure was published together with the audited financial statements of the financial institutions in March 2019.

### 5. Risk-Based Supervision

In order to allocate resources efficiently, detect potential risks early and take policy measures whenever required, AMBD has adopted risk-based supervision instead of compliance-based supervision, starting with insurance and Takaful operators in 2017 — focusing more on their nature, size, complexity, and risk profile. This approach is expected to promote safety and soundness and encourage sustainable growth of the financial system towards the achievement of the goals of the Brunei Darussalam’s Financial Sector Blueprint 2016–2025 and Wawasan Brunei 2035. Under the risk-based supervision approach, financial institutions will be allowed to expand their scope of operations and offer a wider range of financial products as long as these new activities are sustainable, socially responsible, legal, and the banks have the risk management system to manage the risks arising from these activities.

With the full implementation of risk-based supervision on insurance and Takaful operators, AMBD is embarking on a project on a risk-based capital framework to take into account the different risks factors when assessing the capital adequacy of the insurance and Takaful operators and thus, enhancing protection of policyholders. The project is expected to be completed in about 2 years.

AMBD developed its Risk-Based Supervision Framework for Banking in 2018. Under this framework, AMBD will regularly assess, through onsite and offsite reviews, the consolidated risks of supervised financial institutions, the soundness of corporate governance, the sustainability of the business models and earnings, the financial condition, and the adequacy of risk management. This approach is forward-looking and geared towards the strengthening of the risk management system of financial institutions; and the early identification and resolution of threats to the safety and soundness of the financial system.

### 6. International Financial Reporting Standard (IFRS) 9 Implementation

In order to align the banks' financial reporting to the international standards, effective from 1 January 2018, all the banks and finance companies in Brunei Darussalam must fully comply with the IFRS 9 in their audited financial statements. A Regulatory Notice on Prudential Treatment of Problem Assets and Accounting for Expected Credit Losses was issued to all the banks and finance companies on 27 December 2018. This notice integrates key features of IFRS 9 and the Basel Committee on Banking Supervision guidelines on the treatment of problem assets. The harmonisation of definitions and interaction between classified credit exposures will foster consistency in supervisory reporting and improve AMBD's supervision to monitor the asset quality of the banks and finance companies.

AMBD has also been working on the conversion of the existing regulatory returns to align with IFRS. The draft of the new prudential returns were issued to the banks' chief financial officers for consultation in December 2018.

### 7. Syariah Governance and Policies

Brunei Darussalam has a two-tier Syariah governance structure, which comprises of a centralised Syariah Financial Supervisory Board (SFSB), where AMBD is the secretariat, and an internal Syariah Advisory Body (SAB) within each Islamic financial institution. This two-tier governance gives the public the confidence that the Islamic finance products and services are Syariah compliant.

AMBD has introduced three notices and guidelines in 2018, namely the Islamic Product Approval Process Guidelines, the Syariah Governance Framework (SGF), and the Internal Syariah Audit Framework (ISAF) to strengthen the Syariah compliance in the Islamic finance ecosystem.

The Islamic Product Approval Process Guidelines set out the processes to obtain approval from the SFSB for Islamic products and services introduced by the financial institutions. These guidelines will smoothen the product approval process as AMBD ensures that all requirements are met before the Islamic financial products and services are introduced to the market.

In terms of Islamic finance infrastructure, a key initiative developed is the SGF. This framework is to help the financial institutions to have an effective oversight of Syariah compliance, which requires the institution to establish particular functions such as Syariah research, review, audit, and Syariah risk management. Moreover, this framework also provides guidance to the Board of Directors, the SAB and/or the management of the financial institution to perform their duties in ensuring end-to-end Syariah compliance. The financial institutions are to establish their own SGF within 1 year after its issuance on 17 April 2018 and report any non-compliance to AMBD within 30 days.

Ensuring Syariah compliance of Islamic financial products and services from pre-approval to post-approval is essential. Hence, both AMBD and the financial institutions play a crucial role in providing comprehensive Syariah reviews and monitoring systems. AMBD will also be introducing various Syariah parameters to set out the Syariah requirements of the Syariah concepts as well as to ensure that sound practices and consumer protection are implemented throughout the life cycle of the Syariah concept.

## 8. FinTech (Financial Technology) Regulatory Sandbox Guidelines

In order to achieve the goals of the Brunei Darussalam Financial Sector Blueprint 2016-2025, the FinTech Unit under AMBD was established in October 2016 with the objective to harness opportunities of innovation in finance, while safeguarding the financial system from inherent risks. It thus promotes the use of financial technology in the financial sector of Brunei Darussalam.

On 27 February 2017, the AMBD FinTech Regulatory Sandbox Guidelines were issued to facilitate the development of qualified FinTech companies in Brunei Darussalam to offer innovative products or services to the market with regulatory support from AMBD. This regulatory sandbox facilitates the testing of FinTech products and services through the usage of a framework that enables qualified companies or businesses to experiment with innovative solutions in a flexible regulatory environment, for a pre-agreed limited period of time and boundaries.

In March 2017, a virtual FinTech facilitation office named the FinTech Office was formed. The FinTech Office serves as a single point of contact for all parties wishing to engage AMBD on matters related to FinTech.

In May 2018, AMBD signed the Innovation Functions Cooperation Agreement with the Monetary Authority of Singapore (MAS), which allows for the sharing of information related to FinTech and Innovation between AMBD and MAS, cooperation on potential innovation projects, as well as the referral of FinTech companies between AMBD and MAS.

## 9. Payment Market Infrastructure

In November 2014, AMBD introduced the Real-Time Gross Settlement (RTGS) system for the electronic settlement of interbank fund transfers in Brunei Dollars. The RTGS system allows transfers of funds between banks in real-time which are final and irrevocable using central bank money, hence eliminating settlement risk. This payment infrastructure plays an important role in the safe functioning of the financial system and in fulfilling AMBD's core objectives that is to assist in the establishment and functioning of efficient payment systems. AMBD also established the Automated Clearing House (ACH) in May 2016 to improve the safety and efficiency of clearing operations, and a Central Securities Depository (CSD) in May 2017 to support the liquidity of the payment systems.

As part of the implementation of the national electronic payment systems, AMBD also introduced enhancements to the legal framework regarding payment finality and netting, and oversight of payment systems, namely (i) Payment and settlement Systems (Oversight) Order, 2015 and (ii) Payment and Settlement Systems (Finality and Netting) Order, 2015. AMBD has a strong interest in ensuring the safety and efficiency in payment systems as part of its mission to promote financial stability.

## 10. Overnight Standing Facilities

As part of the objectives set out in the Brunei Darussalam Financial Sector Blueprint 2016-2025, AMBD has been taking steps towards creating conditions conducive to the development of a more efficient money market in Brunei Darussalam. In September 2018, AMBD launched the Overnight Standing Facilities, comprising both Syariah-compliant Funding/Acceptance Facilities and Conventional Lending/Deposit Facilities. These facilities aim to support the liquidity management of the banks and shall provide an element of assurance as they are available towards the close of the business day if they need to be tapped into, under strictly predictable conditions.

The introduction of the facility aims to support the effective and efficient liquidity management of the banks as well as to facilitate the smooth functioning of the financial system, thereby providing stability and confidence to the market. It also plays a pivotal role in the financial system as it provides a benchmark range to the interbank market and will foster the innovation of various financial instruments.

**11. Cybersecurity Measures**

In the area of cybersecurity, AMBD has devised the AMBD Cybersecurity Framework based on the National Institute of Standards and Technology Cybersecurity Framework in November 2016. Following this, the AMBD Cybersecurity Strategy (2017–2020) was established in July 2017. The strategy outlines five strategic actions: Set the Strategy, Strengthen the Governance, Enhance the Process, Develop the People, and Use the Right Technology in order to improve the five strategic areas: Identify, Protect, Detect, Respond, and Recover.

In October 2017, AMBD issued a Notice on Early Detection of Cyber Intrusion and Incident Reporting to all financial institutions. This notice requires financial institutions to have robust capabilities to proactively detect cyber intrusions to enable quick response and recovery. In addition, the notice requires financial institutions to notify AMBD as soon as possible but no later than 1 hour upon the discovery of a successful cyber intrusion or any major IT incident.

In November 2017, the Technology Risk Supervision function was established within AMBD to provide regulatory guidance and to conduct supervision of technology risk management of financial institutions.

This initiative will support the growth of FinTech companies domestically within a safe and sound regulatory framework.

In December 2018, the Cybersecurity unit under AMBD was established with the objective of managing cybersecurity issues within AMBD as well as providing valuable assistance to the Regulatory and Supervision Department, especially the Technology Risk Supervision function, on matters pertaining to the cyber-resilience of the financial sector.

Source: AMBD and AMBD staff

## 2.5 Demand for Deposits by Sectors, Type of Deposits, and Currency

**Table 13** presents the distribution of deposits by the Brunei dollar and foreign currency during the period 2014–2018. The contribution of Brunei dollar deposits to total deposits continued to fall during the period 2014–2017 from 83.9% of total deposits or BND13,432.1 million in 2014 to 81.6% or BND12,123.4 million in 2017.

The contribution rose in 2018 reaching 84.0% of total deposits or BND12,873.3 million. As of 2018, deposit holders in Brunei Darussalam held 99.2% of Brunei dollar deposits.

On the other hand, the contribution of foreign currency (FCY) deposits in the banks rose continuously from BND2,578.1 million or 16.1% of total deposits in 2014 to BND2,735.3 million or 18.4% in 2017. The FCY deposits declined marginally to BND2,457.1 million or 16.0% in 2018. As of 2018, FCY deposits by holders in Brunei Darussalam accounted for 99.5% of total FCY deposits.

### Distribution of Brunei Dollar Deposits by Sector

An analysis of **Table 14** on the deposit structure by ownership shows that during the study period, major contributors to total bank deposits had been (i) the resident household sector, (ii) public and private sector companies, (iii) state-owned corporations, and (iv) the central government.

The contribution of the resident household sector was at a peak of 49.5% of total deposits or BND6,909.3 million in 2015 compared to its lowest of 42.2% or BND6,396.2 million in 2018. This reflects the high contribution of household deposits in Brunei Darussalam which form core deposits or a stable source of funds for the banking sector.

After rising in 2015, the contribution of public and private sector companies exhibited a decreasing trend from 27.4% of total deposits in 2015 to 24.1% in 2018. Reflecting this trend, the level of deposit declined to BND3,654.0 million in 2018 against BND3,827.6 million in 2015.

The deposits by state-owned corporations rose y-o-y by 42.2% in 2018 to reach BND2,317.1 million or 15.3% of total deposits compared to BND1,633.1 million or 11.1% in 2017.

### Distribution of Brunei Dollar Deposits by holders in Brunei Darussalam by Type of Deposits

**Table 15** presents the distribution of Brunei dollar deposits by holders in Brunei Darussalam by type of deposit products during 2014–2018.

Time deposits account for a major portion of the total deposits reflecting interest/profit sensitivity of customers, particularly retail customers. The contribution of time deposits to total BND deposits rose to a peak of 47.4% or BND6,107.2 million in 2018 compared to its lowest of 37.3% or BND4,335.3 million in 2015.

The level of savings deposits declined from BND4,022.2 million in 2014 to BND3,834.7 million in 2018. In terms of the contribution to total BND deposits, the savings deposits accounted for 34.0% of total BND deposits in 2015, falling to 30.0% of total BND deposits in 2018.

Meanwhile, demand deposits witnessed some volatility with contributions varying from 27.9% of total deposits or BND3,237.2 million in 2015 to 22.0% or BND2,768.9 million in 2018.

### Distribution of Foreign Currency Deposits by holders in and outside Brunei Darussalam by Type of Deposits

Similar to the trends in the Brunei dollar deposits, time deposits account for a major portion of total FCY deposits by holders in Brunei Darussalam followed by demand deposits (**Table 16**).

Time deposits to total FCY deposits rose from 52.3% or BND1,324.0 million in 2015 to its peak at 65.7% or BND1,811.1 million in 2016.

Subsequently, it fell to 62.0% or BND1,517.9 million in 2018 which may reflect interest/profit rate sensitivity of customers and a higher rate for FCY time deposits.

Meanwhile, the contribution of demand deposits to total FCY deposits declined significantly from 37.9% or BND958.9 million in 2015 to 26.6% or BND649.8 million in 2018. It is observed that the contribution of savings deposits rose modestly from 9.3% or BND237.3 million in 2014 to 11.0% or BND265.6 million in 2018.

**Table 17** displays that the majority of deposit holders outside Brunei Darussalam hold time and saving deposits. With respect to FCY deposit holders outside Brunei Darussalam, the contribution of time deposits to total FCY deposits remained volatile. The ratio declined significantly to 48.7% in 2017 from 73.2% in 2015, rising to 65.4% in 2018.

The contribution of saving deposits by holders outside Brunei Darussalam increased continuously from 18.4% of total FCY deposits in 2014 to 45.1% in 2017, falling to 32.3% in 2018. After contributing 26.3% of total FCY in 2014, the demand deposits fell to a meagre 2.3% in 2018.

## 2.6 Demand for Credit by Economic Sectors

The banks play an important role in providing credit to productive economic sectors and for household consumption which, in turn, boosts economic growth.

This section details the types of demand for credit by household and corporate sectors of Brunei Darussalam.

**Table 18** presents trends in the overall demand for loans/financing (household and corporate sectors) of the banking sector in Brunei Darussalam during 2014–2018.

In spite of a positive economic growth of 1.3% in 2017, the overall demand for loans/financing fell by 16.1% from BND6,115.1 million in 2015 to BND5,130.0 million in 2017. This was due primarily to a large y-o-y decline in corporate sector credit demand by 22.4% and 7.8% respectively in 2016 and 2017.

The demand recovered marginally to BND5,450.5 million in 2018 — a rise of 6.2% compared to 2017 as the economy posted a slight growth in 2018. This was due primarily to the increase in corporate sector demand in 2018 reaching BND2,543.5 million, with an increase of 17.7% compared to BND2,160.1 million in 2017 even though household sector demand fell by 2.1% during the same period.

## Demand for Credit by Household Sector

**Figure 1** presents the trends in household sector loans/financing by the banking sector in Brunei Darussalam at the end of the year during 2010–2018. In terms of sectoral breakdown of credit, the household sector accounted for the major portion of the credit, which is a unique characteristic of Brunei Darussalam's banking sector — ranging from 50.6% of total credit in 2015 to 57.9% in 2017.

After reaching a peak of BND3,096.4 million in 2015, the demand for household credit (including credit cards outstanding) decreased continuously to reach BND2,907.0 million or 53.3% of total credit in 2018 — a moderate decline of 6.1%.

The decline during the period 2015–2018 may be due to the slowdown in both the domestic economy and personal income of the households arising out of increased local unemployment as shown in **Table 2.**

Personal loans/financing (including credit cards outstanding) accounted for the major portion of household credit — ranging from 27.1% of total credit in 2015 to 31.0% of total credit in 2017. However, the demand for personal loans/financing declined continuously from BND1,654.4 million in 2015 to BND1,532.3 million or 28.1% of total credit in 2018 — a fall of 3.6% compared to BND1,591.3 million in 2017. The contribution of residential housing loans/financing to total credit has been stable, accounting for about one quarter of total credit — ranging from 23.6% of total credit in 2015 to 25.2% in 2018.

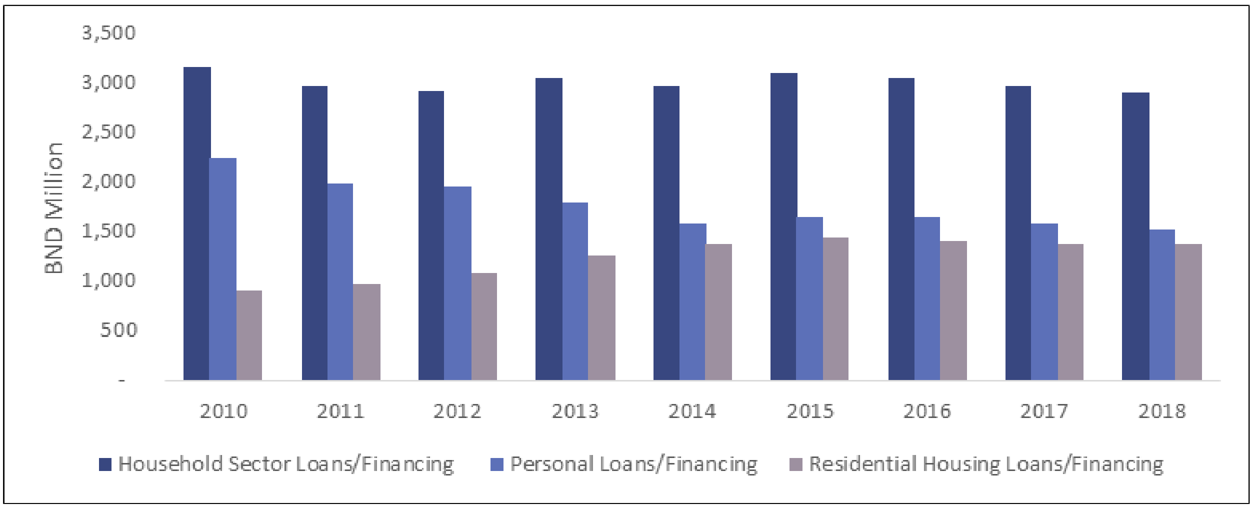
However, in terms of value, residential housing loans/financing witnessed a continuous decline from BND1,442.0 million in 2015 to BND1,374.7 million in 2018 — a decline of 4.7%. This observation is in line with the fall in the Residential Property Price Index and also the median purchase price. The average median purchase price for all property types declined from BND270,000 in 2015 to BND253,000 in 2018.

## Demand for Credit by Corporate Sector

**Figure 2** presents the trends in corporate sector loans/financing by the banks in Brunei Darussalam during 2010–2018. **Figures 3 and 4** exhibit the proportion of loans/financing of the banking sector by economic sectors for 2017 and 2018, respectively.

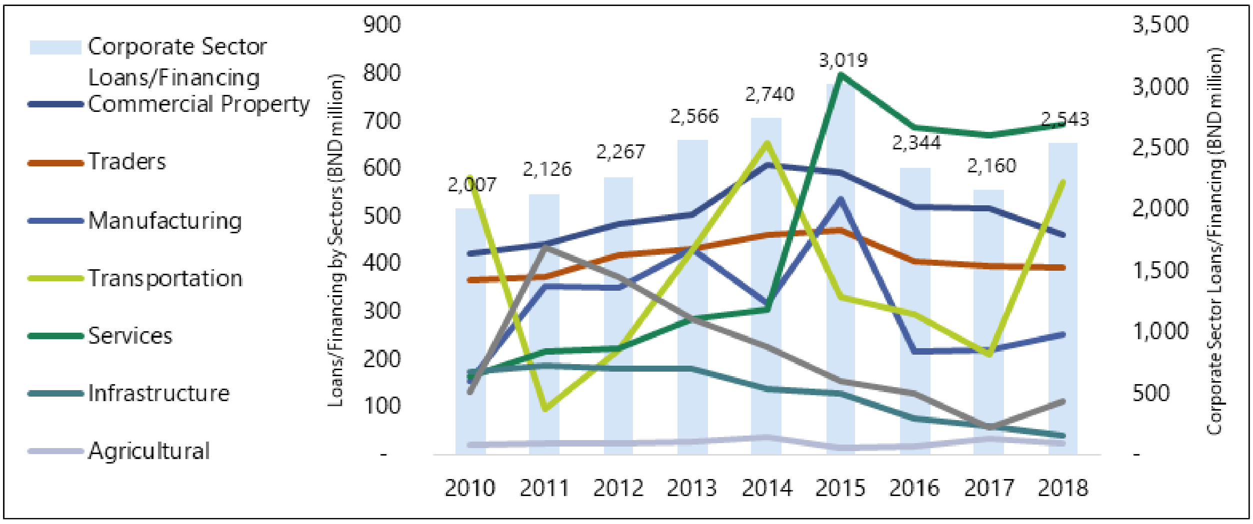
**Table 18** and **Table 19** present the demands for loans/financing by the major economic sectors and by the oil and gas and non-oil and gas sectors respectively during the period 2014–2018.

**Figure 1. Trends in Household Sector Loans/Financing by Banks in Brunei Darussalam: 2010–2018**



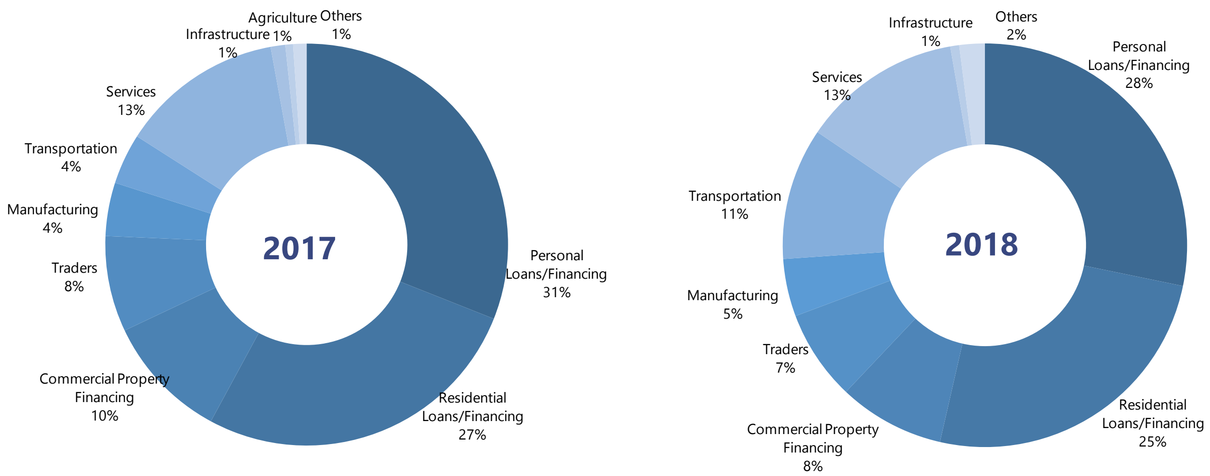

Source: AMBD

**Figure 2. Trends in Corporate Sector Loans/Financing by Banks in Brunei Darussalam: 2010–2018**




Source: AMBD

**Figure 3 & 4. Proportion of Loans/Financing of Banks in Brunei Darussalam by Economic Sector**




Source: AMBD

The tables clearly show that the credit demand from the non-oil and gas sector contributes to a major portion of total bank corporate loans/financing ranging from 75.9% in 2014 to 64.2% in 2015 — reaching 75.9% in 2018. This has played a role, in general, to promote the diversification efforts of Brunei Darussalam away from the oil and gas sector. At the same time, the performance of this sector, therefore, could have a significant impact on the overall credit quality risk as well as profitability of the banking sector.

Corporate sector financing has been volatile in the last eight years with a peak in 2015 (**Figure 2**). Reflecting the four-year weak economic growth, credit by the corporate sector declined significantly and continuously by 28.4% from BND3,018.7 million in 2015 or 49.4% of total credit to BND2,160.1 million or 42.1% in 2017. Following the positive economic growth in 2017 and 2018, the credit recovered modestly to BND2,543.5 million or 46.7% of total credit in 2018 — a 17.7% rise compared to 2017.

Within the corporate sector in 2018, the services sector accounted for the major portion of the total demand followed by the transportation, commercial property, traders, and manufacturing sectors.

The contribution of the services sector varied widely from 5.3% of total credit or BND302.6 million in 2014 to 13.1% or BND671.1 million in 2017. In 2018, the services sector contributed 12.7% of total credit demand or BND693.6 million — a rise of 3.3% compared to the demand in 2017.

The credit demand of commercial property declined by 24.4% from BND609.1 million or 10.7% of total credit demand in 2014 to BND460.5 million or 8.4% in 2018.

The credit volume in the transportation sector was highly volatile. After falling continuously from the peak at BND652.8 million or 11.4% of total credit in 2014, it reached BND209.0 million or 4.1% of total credit in 2017. The demand for transportation financing, however, picked up significantly in 2018 reaching BND572.9 million or 10.5% of total credit — a rise of 174.1% compared to 2017.

The credit demand by the traders' sector declined continuously from BND471.4 million or 7.7% of total credit in 2015 to 393.0 million or 7.2% in 2018.

After reaching BND535.2 million or 8.8% of total credit in 2015, the demand for credit by the manufacturing sector fell to BND220.4 million or 4.3% of total credit in 2017. However, the demand for credit recovered to BND250.4 million or 4.6% of total credit in 2018 — a 13.6% growth from 2017.

The contribution of the remaining economic sectors such as infrastructure, financial, telecommunications and information technology, tourism, and agriculture accounted for a small portion of total credit as of 2018, namely 0.7%, 1.1%, 0.2%, 0.7%, and 0.4% of total credit, respectively (**Figure 4**).

**Table 5. Structure of Banking Sector in Brunei Darussalam: 2018**

| Name of Bank | Type of Financial Institution | Date of Establishment | Country of Incorporation and Type of Entity | No of Branches |
|---|---|---|---|---|
| Local/Domestic Banks | | | | |
| Baiduri Bank Berhad | Conventional Commercial Bank | January 1993 | Brunei Darussalam (incorporated under Companies Act) | 13 branches including headquarter |
| Bank Islam Brunei Darussalam (BIBD) Berhad | Islamic Commercial Bank | February 2005 | Brunei Darussalam (incorporated under Companies Act) | 15 branches including headquarter |
| Perbadanan Tabung Amanah Islam Brunei Berhad (TAIB) | Islamic Trust Fund undertaking limited banking business | October 1991 | Brunei Darussalam (established under the virtue of Perbadanan Tabung Amanah Islam Brunei Act, Cap 163) | 8 branches including headquarter |
| International and Regional Banks Branches | | | | |
| Standard Chartered Bank | Conventional Commercial Bank | April 1958 | United Kingdom (registered under Companies Act) | 7 branches including headquarter |
| Bank of China (Hong Kong) Limited | Conventional Commercial Bank | November 2016 | Hong Kong (registered under Companies Act) | 1 headquarter/ branch |
| United Overseas Bank (UOB) Limited | Conventional Commercial Bank undertaking corporate banking only | 1974 | Singapore (registered under Companies Act) | 1 headquarter/ branch |
| Malayan Banking Berhad (Maybank) | Conventional Commercial Bank | 1960 | Malaysia (registered under Companies Act) | 1 headquarter/ branch |
| RHB Bank Berhad | Conventional Commercial Bank | 1964 | Malaysia (registered under Companies Act) | 1 headquarter/ branch |
| State Street (Brunei) Sdn Bhd (Restricted Banking Licence) | Conventional Bank undertaking custodian service | 2011 | Brunei Darussalam (incorporated under Companies Act) | 1 headquarter/ branch |

Source: AMBD

**Table 6. Market Share of Conventional and Islamic Banks: 2018**

| Market Share | Units | Assets | Deposits | Loans/Financing |
|---|---|---|---|---|
| Islamic Banks | BND million | 11,643 | 9,647 | 3,291 |
| | In percentage of Total | 63.5% | 62.9% | 60.4% |
| Conventional Banks | BND million | 6,685 | 5,683 | 2,159 |
| | In percentage of Total | 36.5% | 37.1% | 39.6% |

Source: AMBD staff

**Table 7. Banking Development in Brunei Darussalam: 2014–2018**

| Indicators | Units | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Nominal GDP | BND billion | 21.7 | 17.8 | 15.7 | 16.7 | 18.3 |
| | Year-on-year percentage change | –4.3% | –18.0% | –11.4% | 6.4% | 9.3% |
| Assets | BND billion | 18.7 | 17.0 | 18.0 | 17.5 | 18.3 |
| | Year-on-year percentage change | –3.5% | -8.8% | 5.3% | –2.6% | 4.8% |
| Assets/ Nominal GDP | % | 86.2% | 95.9% | 114.0% | 104.4% | 100.2% |
| Deposits | BND billion | 16.0 | 14.2 | 15.1 | 14.9 | 15.3 |
| | Year-on-year percentage change | –4.3% | -11.0% | 6.0% | –1.6% | 3.2% |
| Deposits/ Nominal GDP | % | 73.9% | 80.1% | 95.8% | 88.7% | 83.8% |
| Loans/ Financing | BND billion | 5.7 | 6.1 | 5.4 | 5.1 | 5.5 |
| | Year-on-year percentage change | 1.6% | 7.0% | –11.6% | –5.1% | 6.2% |
| Loans/ Financing to Nominal GDP | % | 26.4% | 34.4% | 34.3% | 30.6% | 29.8% |
| Private Sector Credit | BND billion | 5.3 | 5.6 | 5.2 | 4.9 | 4.7 |
| | Year-on-year percentage change | 2.9% | 4.5% | –7.6% | –4.7% | –3.8% |
| Private Sector Credit to Nominal GDP | % | 24.6% | 31.4% | 32.7% | 29.3% | 25.8% |
| Loans/ Financing to Deposits Ratio | % | 35.7% | 42.9% | 35.8% | 34.5% | 35.6% |
| Total Number of Deposit Accounts | Number | 616,206 | 633,406 | 633,912 | 620,350 | 642,717 |
| Total Number of Loans/ Financing Accounts | Number | 247,486 | 247,956 | 157,448 | 176,210 | 161,995 |

Source: AMBD

**Table 8. Trends in the Financial Soundness Indicators for the Banking Sector of Brunei Darussalam: 2014–2018 (in percentage)**

| Year | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | |
| Regulatory Capital to Risk Weighted Assets | 21.0 | 21.7 | 21.5 | 18.1 | 18.4 |
| Tier 1 Capital to Risk Weighted Assets | 22.1 | 22.9 | 23.2 | 18.3 | 19.2 |
| Net Non-Performing Loans/Financing to Capital Funds | 6.2 | 6.1 | 7.8 | 4.4 | 6.4 |
| **Credit Quality** | | | | | |
| Non-Performing Loans/Financing to Gross Loans/Financing | 5.0 | 4.9 | 5.9 | 4.4 | 4.8 |
| Net Non-Performing Loans/Financing to Gross Loans/Financing | 2.3 | 2.2 | 3.3 | 1.6 | 2.4 |
| Provision Coverage | 54.2 | 55.2 | 43.3 | 62.8 | 49.9 |
| **Profitability (Annualised)** | | | | | |
| Return on Assets (Before Tax) | 1.4 | 1.3 | 1.0 | 1.3 | 1.5 |
| Return on Equity (After Tax) | 10.1 | 8.7 | 6.4 | 8.9 | 11.4 |
| Efficiency Ratio | 50.0 | 52.4 | 53.6 | 51.5 | 48.1 |
| **Liquidity** | | | | | |
| Liquid Assets to Total Assets | 53.9 | 45.5 | 50.4 | 51.0 | 51.7 |
| Liquid Assets to Total Deposits | 62.8 | 54.5 | 60.0 | 60.0 | 61.8 |
| Liquid Assets to Demand and Savings Deposits (Non-bank customers) | 122.1 | 93.0 | 115.0 | 115.2 | 126.0 |
| Loans/Financing to Deposits Ratio | 35.7 | 42.9 | 35.8 | 34.5 | 35.6 |

Source: AMBD

**Table 9. Trends in the Assets and NPLF of the Banking Sector: 2014–2018 (in BND million)**

| Year/ Indicators | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Assets** | 18,677 | 17,041 | 17,953 | 17,484 | 18,328 |
| **Loans/ Financing** | 5,712 | 6,115 | 5,404 | 5,130 | 5,450 |
| **Gross NPLF** | 287 | 300 | 318 | 226 | 259 |
| **Net NPLF** | 132 | 134 | 180 | 84 | 130 |

Source: AMBD

**Table 10. Trends in Yield of the Banking Sector by Type of Assets: 2014–2018**

| Year/Indicators (Annualised) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Income, BND million** | | | | | |
| Total Interest/Profit Income | 461 | 441 | 455 | 458 | 519 |
| Interest/Profit Income on Loans/Financing | 331 | 328 | 324 | 295 | 306 |
| Interest/Profit Income on Placements | 55 | 59 | 72 | 99 | 136 |
| Interest/Profit Income on Investment | 75 | 53 | 59 | 64 | 77 |
| **Yield by Type of Assets** | | | | | |
| Yield on Total Interest/Profit Relating Assets, % | 2.9 | 3.0 | 3.1 | 3.1 | 3.5 |
| Yield on Loans/Financing, % | 5.9 | 5.5 | 5.5 | 5.7 | 5.8 |
| Yield on Placements, % | 0.7 | 0.9 | 1.0 | 1.3 | 1.8 |
| Yield on Investments, % | 3.2 | 2.2 | 3.0 | 3.1 | 3.4 |

Source: AMBD staff

**Table 11. Average Savings and Time Deposit Interest/Profit Rates by Maturity: 2017–2018 (in percentage)**

| Year/ Maturity | 2017 | 2018 |
|---|---|---|
| **Savings Deposit*** | 0.29 | 0.26 |
| **Time Deposit*** | | |
| Less than 1 Month | 0.27 | 0.39 |
| 1–3 Months | 0.34 | 0.58 |
| 3–6 Months | 0.50 | 0.61 |
| 6–12 Months | 0.70 | 0.77 |

Source: AMBD Staff Calculation based on data provided by banks
*Simple average based on data provided by banks
Note: The deposit interest/profit rate is the average rate paid by banks to individuals or corporations on deposits

**Table 12. Average Lending/Financing Rates of Banks by Economic Sectors: 2017–2018 (in percentage)**

| Sector | 2017 | 2018 |
|---|---|---|
| **Household Sector*** | | |
| Personal | 6.11 | 6.27 |
| Credit Cards | 14.15 | 14.39 |
| Residential Housing | 5.10 | 5.17 |
| Structural Home Improvement | 6.28 | 6.01 |
| **Corporate Sector*** | | |
| Commercial Property | 5.47 | 5.36 |
| Traders | 6.13 | 5.84 |
| Manufacturing | 5.67 | 5.37 |
| Transportation | 5.86 | 5.76 |
| Services | 6.38 | 5.86 |
| Infrastructure | 6.42 | 6.69 |
| Financial | 7.28 | 7.24 |
| Telecommunications & Information Technology | 6.01 | 5.37 |
| Tourism | 5.94 | 5.81 |
| Agriculture | 5.31 | 5.53 |

Source: AMBD staff estimation based on data provided by banks
*Simple average based on data provided by banks

**Table 13. Trends in Deposits by Holders In and Outside Brunei Darussalam by Currency: 2014–2018 (in BND million)**

| Year | | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Type of Deposits and Holders | | Amt | % of total | Amt | % of total | Amt | % of total | Amt | % of total | Amt | % of total |
| BND Deposits | In Brunei Darussalam | 13,352 | 83.4 | 11,622 | 81.6 | 12,271 | 81.3 | 12,071 | 81.2 | 12,773 | 83.3 |
| | Outside Brunei Darussalam | 80 | 0.5 | 74 | 0.5 | 49 | 0.3 | 52 | 0.3 | 101 | 0.7 |
| **Total BND Deposits** | | **13,432** | **83.9** | **11,696** | **82.1** | **12,319** | **81.6** | **12,123** | **81.5** | **12,873** | **84.0** |
| FCY Deposits | In Brunei Darussalam | 2,554 | 15.9 | 2,531 | 17.8 | 2,758 | 18.3 | 2,717 | 18.3 | 2,445 | 16.0 |
| | Outside Brunei Darussalam | 25 | 0.2 | 17 | 0.1 | 17 | 0.1 | 18 | 0.1 | 12 | 0.0 |
| **Total FCY deposits** | | **2,579** | **16.1** | **2,548** | **17.9** | **2,775** | **18.4** | **2,735** | **18.4** | **2,457** | **16** |
| **TOTAL** | | **16,011** | **100** | **14,244** | **100** | **15,094** | **100** | **14,859** | **100** | **15,330** | **100** |

Source: AMBD
Note: Numbers may not sum precisely due to rounding

### Table 14. Trends in Deposit Structure by Ownership: 2014–2018 (in BND million)

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Ownership | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Central Government | 2,931 | 18.7 | 1,212 | 8.7 | 2,345 | 15.8 | 2,190 | 14.9 | 2,142 | 14.2 |
| Finance Companies | 291 | 1.9 | 350 | 2.5 | 367 | 2.5 | 417 | 2.8 | 341 | 2.3 |
| Takaful/ Insurance | 183 | 1.2 | 216 | 1.5 | 240 | 1.6 | 233 | 1.6 | 292 | 1.9 |
| Other Financial Institutions | 12 | 0.1 | 3 | 0.0 | 3 | 0.0 | 6 | 0.0 | 5 | 0.0 |
| State-Owned Corporations | 1,698 | 10.8 | 1,440 | 10.3 | 2,211 | 14.8 | 1,633 | 11.1 | 2,317 | 15.3 |
| Public and Private Sectors | 3,819 | 24.4 | 3,828 | 27.4 | 3,429 | 23.0 | 3,585 | 24.4 | 3,654 | 24.1 |
| Resident Households | 6,747 | 43.0 | 6,909 | 49.5 | 6,299 | 42.3 | 6,654 | 45.2 | 6,396 | 42.2 |
| Total Deposit | **15,680** | **100** | **13,957** | **100** | **14,893** | **100** | **14,718** | **100** | **15,148** | **100** |

Source: AMBD

Note: 1) Central government deposits include AMBD deposits
2) Deposit does not include non-residents' deposits
3) Numbers may not sum precisely due to rounding

### Table 15. Trends in BND Deposits by Holders in Brunei Darussalam by Type of Products: 2014–2018 (in BND million)

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Types of Deposits | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Demand Deposits | 3,140 | 23.5 | 3,237 | 27.9 | 3,270 | 26.6 | 2,894 | 24.0 | 2,769 | 22.0 |
| Saving Deposits | 4,022 | 30.1 | 3,953 | 34.0 | 3,727 | 30.4 | 3,825 | 31.7 | 3,835 | 30.0 |
| Time Deposits | 6,084 | 45.6 | 4,335 | 37.3 | 5,186 | 42.3 | 5,249 | 43.5 | 6,107 | 47.4 |
| Other Deposits | 106 | 0.8 | 97 | 0.8 | 87 | 0.7 | 103 | 0.8 | 62 | 0.5 |
| Total | 13,352 | 100 | 11,622 | 100 | 12,271 | 100 | 12,072 | 100 | 12,772.8 | 100 |

Source: AMBD

**Table 16. Trends in Foreign Currency Deposits by Holders in Brunei Darussalam by Type of Products: 2014 to 2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Type of Deposits | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Demand Deposits | 907 | 35.5 | 959 | 37.9 | 735 | 26.6 | 802 | 29.5 | 650 | 26.6 |
| Saving Deposits | 237 | 9.3 | 224 | 8.8 | 196 | 7.1 | 250 | 9.2 | 266 | 11.0 |
| Time Deposits | 1,392 | 54.5 | 1,324 | 52.3 | 1,811 | 65.7 | 1,649 | 60.7 | 1,518 | 62.0 |
| Other Deposits | 17 | 0.7 | 25 | 1.0 | 16 | 0.6 | 16 | 0.6 | 12 | 0.5 |
| Total | **2,554** | **100** | **2,531** | **100** | **2,758** | **100** | **2,717** | **100** | **2,445.3** | **100** |

Source: AMBD
Note: Numbers may not sum precisely due to rounding

**Table 17. Trends in Foreign Currency Deposits by Holders outside Brunei Darussalam by Type of Products: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Type of Deposits | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Demand Deposits | 7 | 26.3 | 1 | 3.8 | 2 | 11.3 | 1 | 6.2 | 0.3 | 2.3 |
| Saving Deposits | 5 | 18.4 | 4 | 23.0 | 5 | 27.5 | 8 | 45.1 | 4 | 32.3 |
| Time Deposits | 14 | 55.3 | 12 | 73.2 | 10 | 61.2 | 9 | 48.7 | 8 | 65.4 |
| Total | 26 | 100 | 17 | 100 | 17 | 100 | 18 | 100 | 12 | 100 |

Source: AMBD

**Table 18. Demands for Loans/Financing by Economic Sectors: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sector | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| **Household Sector** | **2,971** | **52.0** | **3,096** | **50.6** | **3,061** | **56.6** | **2,970** | **57.9** | **2,907** | **53.3** |
| Personal Loans/ Financing | 1,592 | 27.9 | 1,654 | 27.1 | 1,653 | 30.6 | 1,591 | 31.0 | 1,532 | 28.1 |
| Residential Housing | 1,379 | 24.1 | 1,442 | 23.6 | 1,408 | 26.1 | 1,379 | 26.9 | 1,375 | 25.2 |
| **Corporate Sector** | **2,740** | **48.0** | **3,019** | **49.4** | **2,344** | **43.4** | **2,160** | **42.1** | **2,543** | **46.7** |
| Commercial Property | 609 | 10.7 | 591 | 9.7 | 519 | 9.6 | 517 | 10.1 | 461 | 8.5 |
| Traders | 460 | 8.1 | 471 | 7.7 | 407 | 7.5 | 396 | 7.7 | 393 | 7.2 |
| Manufacturing | 316 | 5.5 | 535 | 8.8 | 217 | 4.0 | 220 | 4.3 | 250 | 4.6 |
| Transportation | 653 | 11.4 | 330 | 5.4 | 294 | 5.4 | 209 | 4.1 | 573 | 10.5 |
| Services | 303 | 5.3 | 796 | 13.0 | 687 | 12.7 | 671 | 13.1 | 694 | 12.7 |
| Infrastructure | 137 | 2.4 | 128 | 2.1 | 76 | 1.4 | 60 | 1.2 | 39 | 0.7 |
| Financial | 129 | 2.3 | 69 | 1.1 | 66 | 1.2 | 20 | 0.4 | 58 | 1.1 |
| Telco and Information Technology | 51 | 0.9 | 41 | 0.7 | 22 | 0.4 | 12 | 0.2 | 13 | 0.2 |
| Tourism | 45 | 0.8 | 45 | 0.7 | 39 | 0.7 | 23 | 0.5 | 39 | 0.7 |
| Agriculture | 37 | 0.7 | 12 | 0.2 | 18 | 0.3 | 32 | 0.6 | 24 | 0.4 |
| **Total Financing** | **5,712** | **100** | **6,115** | **100** | **5,404** | **100** | **5,130** | **100** | **5,450** | **100** |

Source: AMBD
Note: Numbers may not sum precisely due to rounding

**Table 19. Demands for Loans/Financing by Oil and Gas and Non-Oil and Gas Sectors: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sector | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Oil and Gas Sector | 661.2 | 24.1 | 1,082.0 | 35.8 | 676.1 | 28.8 | 601.8 | 27.9 | 612.9 | 24.1 |
| Non-Oil and Gas Sector[1/] | 2,079.3 | 75.9 | 1,936.7 | 64.2 | 1,667.4 | 71.2 | 1,558.3 | 72.1 | 1,930.6 | 75.9 |
| Total | 2,740.4 | 100 | 3,018.7 | 100 | 2,343.5 | 100 | 2,160.1 | 100 | 2,543.5 | 100 |

Source: AMBD
1/ Non-oil and gas sector includes the downstream oil and gas related activities

# 03
# RISK ASSESSMENT OF THE BANKING SECTOR

A risk assessment of corporate and household credit shows that the credit quality risk as measured by the gross NPLF remained elevated in 2018 with a rise of 14.8%. This is primarily due to a 40.3% rise in corporate NPLF. Meanwhile, household NPLF declined by 8.9%.

The level of bank intermediation is low as reflected by the low loans/financing to deposit ratio (35.6% in 2018). The banks, therefore, place their excess liquidity in offshore assets in the form of placements and investments abroad, which constituted 55.8% of total assets and 66.7% of total deposits in 2018.

In terms of currency exposure and concentration, offshore placements and investments were concentrated in two major currencies: the Singapore dollar (34.3%) and the US dollar (60.7%). With regards to country exposure and concentration, offshore assets were mainly concentrated in Singapore (46.8%) and the Gulf Countries (35.3%). Even though offshore assets constitute a large portion of deposits, the liquidity risk remains low as most of the offshore assets are placements with banks abroad which are usually short-term and highly liquid in nature.

## Growth of Non-Performing Loans/Financing 2018 (y-o-y)

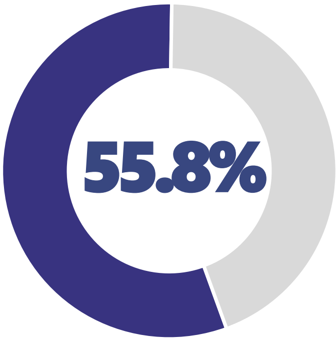
**40.3%**

Corporate Sector

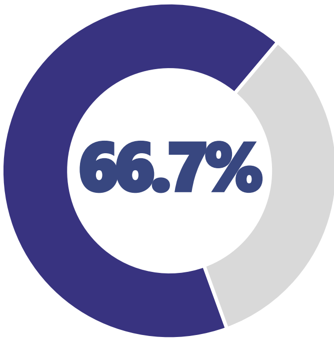
**-8.9%**

Household Sector

## Offshore Assets 2018




Proportion of Offshore Assets to Total Assets




Proportion of Offshore Assets to Total Deposits

## Major Currencies of Offshore Placements and Investments 2018

**60.7%**

**US Dollar**

**34.3%**

**SG Dollar**

## Risks Associated with Offshore Placements and Investments

Currency and Country Exposure

Concentration Risks

Liquidity Risks

### 3.1 Credit Quality Risk

With respect to the risk assessment of the banking sector, it is important to examine the trends in NPLF to assess the magnitude of credit quality risk of the banking sector. In addition, macro-financial linkages need to be examined between the performance of the economy and its sectors and the performance of the banking sector. **Table 20** provides the trends in NPLF by sectors, namely household and various corporate sectors.

### Trends in Credit Quality Risk: NPLF

After a significant improvement in 2017, the NPLF of the banking sector witnessed a moderate deterioration in 2018 as reflected in the magnitude of NPLF. This was mainly due to the increase in NPLF in the corporate sector despite improvement in the household sector. After witnessing 1.3% growth in 2017, the real GDP of Brunei Darussalam recorded a 0.1% growth in 2018 where the second and third quarters' GDP recorded a decline of 2.8% and 1.1% respectively. This may have contributed to the increase in the credit quality risk of the banking sector in 2018.

The credit quality risk of the banking sector as a whole as measured by the total gross NPLF of the banking industry increased by 10.6% from BND287.3 million in 2014 to BND317.9 million in 2016 primarily as a result of recession in the economy during that period. Reflecting positive economic growth in 2017, the gross NPLF decreased significantly by 29.0% reaching BND225.7 million in 2017 against the level in 2016 — rising again by 14.9% to BND259.2 million in 2018.

During 2014–2018, the household sector witnessed the highest credit quality risk contributing 53.5% of total NPLF or BND153.8 million in 2014, subsequently, decreasing continuously to reach 36.4% of total NPLF or BND115.8 million in 2016. It increased moderately again to BND116.8 million or 51.7% of total NPLF in 2017. The credit quality risk decreased by 8.9% in 2018 with the volume of household NPLF reaching BND106.4 million or 41.1% of total NPLF.

On the other hand, the NPLF in the corporate sector in 2016 reached BND202.1 million or 63.6% of total NPLF. The credit quality risk declined significantly as the volume of NPLF fell by 46.1% in 2017 compared to 2016 reaching BND108.9 million or 48.3% of total NPLF. Nonetheless, the risk rose again significantly as the volume of NPLF rose to BND152.8 million or 58.9% of total NPLF in 2018 — a rise of 40.3% compared to 2017.

### Macro-Financial Linkage: Impact of Oil and Gas and Non-Oil and Gas Sectors' GDP on the Banking Sector

As Brunei Darussalam's economy is highly dependent on the oil and gas sector, the banking sector is expected to be influenced by revenue flows from oil and gas related sectors through movements in deposit and credit.

During the period of the rise in the oil price, export inflows from oil revenue should cause a surge in bank deposits, providing increased liquidity in the banking system and thus providing opportunity for increased loans/financing to the real sector.

A correlation analysis using quarterly data from 2010–2018, has been undertaken to examine the relationship between major economic indicators, namely nominal GDP, real GDP, nominal oil and gas GDP, real GDP (non-oil and gas), real GDP (oil and gas), oil price, and LNG price with major banking performance indicators, namely public credit, public deposits, private deposits, private credit, corporate credit, NPLF value, NPLF ratio, banks' income, NPLF in household credit, and NPLF in corporate credit.

**Table 21** presents the results of the above correlation analysis for the variables exhibiting statistically significant correlations.

The correlation analysis results indicate that private deposit demand, corporate credit demand, total NPLF, NPLF to total loans/financing, household NPLF and corporate NPLF display a high correlation with the non -oil and gas sector GDP. However, nominal GDP, real GDP, nominal oil and gas GDP, real GDP (oil and gas), oil price, and LNG price do not show any significant statistical relationship with the selected banking performance indicators. As a major portion of total bank credit goes to the non-oil and gas sector (75.9% of total corporate credit as of 2018), naturally the oil and gas sector GDP and related variables do not show a significant correlation with the banking indicators. The contribution of the non-oil and gas sector to total corporate credit rose by 3.8 percentage points in 2018 compared to 72.1% of total corporate credit in 2017 (**Table 18**). At the same time, the non-oil and gas sector accounts for 96.7% of total corporate NPLF in 2018 (**Table 22**).

The above analysis clearly shows that vulnerability or instability of the non-oil and gas sector can cause instability and poor performance of the banking sector in terms of the credit quality risk of the household and corporate sectors, credit expansions, and deposit mobilisation. Real non-oil and gas GDP recorded the strongest negative relation with a correlation coefficient of –0.80 with the total NPLF volume, and the ratio of NPLF to total loans/financing, followed by corporate NPLF volume (–0.77), and household NPLF volume (–0.63). As expected, a strong positive relationship with a correlation coefficient of 0.63 with private deposits and 0.54 with corporate credit volume was recorded. As public deposits and income of the banks recorded high volatility during 2010–2018, their relationships with the non-oil and gas sector GDP were not significant in the correlation analysis.

## 3.2 Corporate Sector Risk

### The Characteristics and Performance of the Corporate Sector in Brunei: 2015–2016

**Box 3** presents the trends in the characteristics and performance of the corporate sector in Brunei Darussalam during 2015–2016 based on the Economic Census of Enterprises (ECE) 2016. The ECE of 2016 shed light on the characteristics and performance of the corporate sector in Brunei Darussalam. This analysis could indicate the implication of the performance of various corporate sectors on the credit risk of loans/ financing to these sectors.

### Box 3. Characteristics and Performance of the Corporate Sector in Brunei Darussalam: 2015–2016

Micro, small, and medium enterprises (MSMEs) account for 96.5% of the total private sector businesses. Around 80% of these enterprises were either micro or small enterprises consisting of a large number of enterprises (4,214).

Brunei Darussalam conducted the Economic Census of Enterprises (ECE) 2016 on the profile and performance of private sector businesses in 2015. The report on this survey highlights the activities of enterprises in Brunei Darussalam. The ECE 2016 preliminary data is based on the information provided by the responding enterprises as of end of July 2017.

Based on the above survey, the major characteristics of the corporate sector are as follows:

**Size of the Enterprises**

As of 2015, out of 5,342 active enterprises:

- small enterprises with 2,294 enterprises constituting a major portion, that is 42.9% of total enterprises, followed by
- micro enterprises with 1,920 enterprises (35.9%),
- medium enterprises with 944 enterprises (17.7%), and
- large enterprises with 184 enterprises (3.5%).

The number of medium enterprises increased on average by 13.7% from 830 in 2010 to 944 in 2015 whereas the number of large enterprises increased by 5.8% from 139 in 2010 to 184 in 2015. In contrast, the number of micro and small enterprises declined by 2.8% and 0.7%, respectively in 2015 from 2,216 (39.8%) and 2,381 (42.8%) in 2010.

Adequate loans/financing are crucial for MSMEs as they usually generate significant employment and can contribute towards the improved health of the economy.

**Number of Enterprises by Type of Economic Activity**

In terms of the number of enterprises, the major economic sectors are as follows:

- wholesale and retail trade with 1,815 enterprises or 34.0% of total enterprises, followed by
- construction with 793 enterprises (14.8%), and
- manufacturing with 550 enterprises (10.3%).

**Revenue Generation**

The total revenue from business activities in 2015 amounted to BND23.9 billion, compared to BND29.2 billion in 2010. This is a decline of 18% or around 3.9% per year compared to 2010, which may be due to the economic slowdown.

In terms of revenue generation:

- mining and quarrying was the largest revenue generator contributing 28.9% of the total revenue valued at BND6.9 billion, followed by
- manufacturing with BND5.2 billion (21.8%), and
- wholesale and retail trade with BND5.2 billion (21.5%).

Reflecting the significant fall in the oil price in 2015, the mining and quarrying sector suffered from a very large reduction in its revenue by 45.2% reaching BND6.9 billion in 2015 compared to BND 12.6 billion in 2010. As a result, its share of revenue generation has declined to 28.9% from 42.2% in 2010.

The manufacturing sector also witnessed a decline in revenue, from BND6.5 billion in 2010 to BND 5.2 billion in 2015 with a share of 22.2% and 21.8%, respectively.

In view of the above, the credit quality risk rose in the mining and quarrying and manufacturing sectors during this period as reflected in the NPLF data. The NPLF in the manufacturing sector (including mining and quarrying) increased substantially in 2016 to 15.7% of total NPLF or BND49.9 million compared to 8.5% of total NPLF or BND25.4 million in 2015 and 3.3% of total NPLF or BND9.4 million in 2014 (**Table 20**).

On the other hand, the revenue of the wholesale and retail trade sector exhibited an increase of 13.0% reaching BND5.2 billion in 2015, compared to BND4.6 billion in 2010.

In terms of the size of the business, during 2010–2015, the total revenue generated by the MSMEs had risen, both in value from BND7.9 billion in 2010 to BND8.3 billion in 2015 and its share from 26.9% in 2010 to 34.8% in 2015. In contrast, the large enterprises recorded a fall in their revenue from BND21.4 billion in 2010 to BND15.6 billion in 2015.

This shows that in 2010–2015, the MSMEs had performed well compared to their large counterparts and hence were good potential customers for the banks and other finance institutions.

**Employment Statistics**

Total employment in the private sector grew by 16.4% (or 3.1% annually) from 99,607 persons in 2010 to 115,894 persons in 2015.

In 2015, by the size of enterprises:

- Large enterprises accounted for 52,719 persons or 45.5% total private sector employees
- Medium enterprises with 36,431 persons or 31.4%
- Small enterprises with 21,985 or 19.0%
- Micro enterprises with 4,759 or 4.1%

During 2010–2015, both the large and medium enterprises witnessed record increases in their employment numbers by 5.5% and 3.0% on average annually from the level of 40,428 persons and 31,373 persons in 2010, respectively. On the other hand, micro and small enterprises witnessed a decline of 2.4% and 0.4% on average annually during the same period from 5,395 persons and 22,411 persons in 2010, respectively.

In terms of the employment numbers by economic sectors:

- construction was the top employer with 27,180 employees contributing 23.5% of total employment,
- wholesale and retail trade with 25,793 employees (22.3%) and
- professional, technical, administrative, and support services with 13,754 employees (11.9%)

Source: Preliminary Report of the Economic Census of Enterprises 2016, Department of Statistics, DEPD, Ministry of Finance and Economy

## Trends in Non-Performing Loans/Financing of Banks by Economic Sectors

As indicated in the previous section, it is important to examine the trends in NPLF by economic sectors to assess the magnitude of credit quality risks. **Table 20** presents the sector-wise exposure of NPLF of the corporate and household borrowers during 2014–2018.

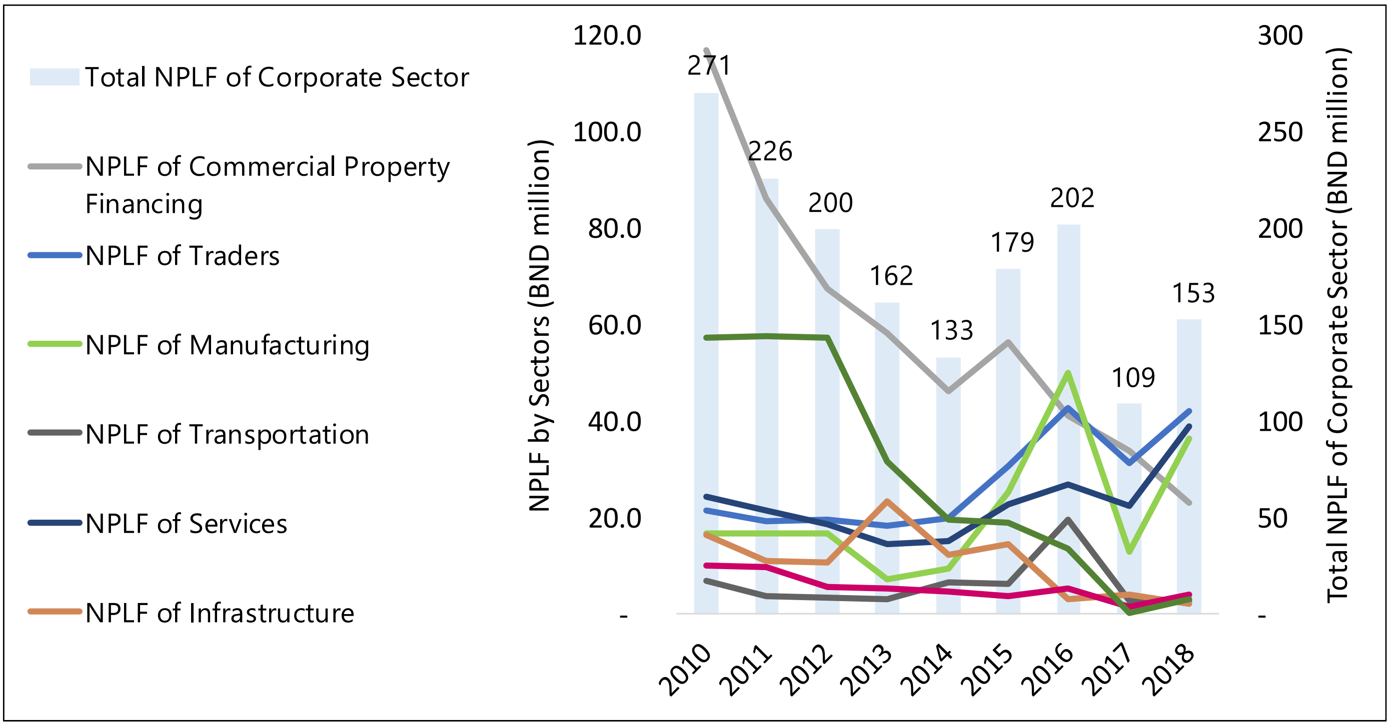
**Table 22** exhibits NPLF by both the oil and gas sector and the non-oil and gas sector. **Figure 5** presents the trends in the corporate sector NPLF during 2010–2018. **Figures 6 and 7** exhibit the proportion of sectoral NPLF to total NPLF by economic sectors for 2017 and 2018, respectively.

The credit quality risk of the corporate sector as measured by the corporate sector NPLF volume rose continuously during the period 2014–2016 before declining significantly in 2017 but rising again in 2018 (**Table 20**). As the non-oil and gas sector accounts for the bulk of credit, its NPLF volume accounted for 96.7% of the total NPLF volume of the corporate sector in 2018 (**Table 22**). During the period 2014–2016, its contribution to total corporate sector NPLF fell from 95.4% to 81.4% due to the significant rise in the contribution of the oil and gas sector NPLF to the total corporate sector NPLF from 4.6% to 18.6% in the same period. In 2017, the NPLF volume of both the oil and gas sector and non-oil and gas sector recorded a drastic y-o-y decline of 92.6% and 35.5%, respectively.

Reflecting a contraction of 1.1% in the real GDP of the oil and gas sector in 2018, the volume of its NPLF witnessed a significant y-o-y rise of 80.1% reaching BND5.0 million. In spite of an expansion of 1.7% in the real GDP of non-oil and gas sector in 2018, its NPLF recorded a large rise of 39.2% reaching BND147.8 million.

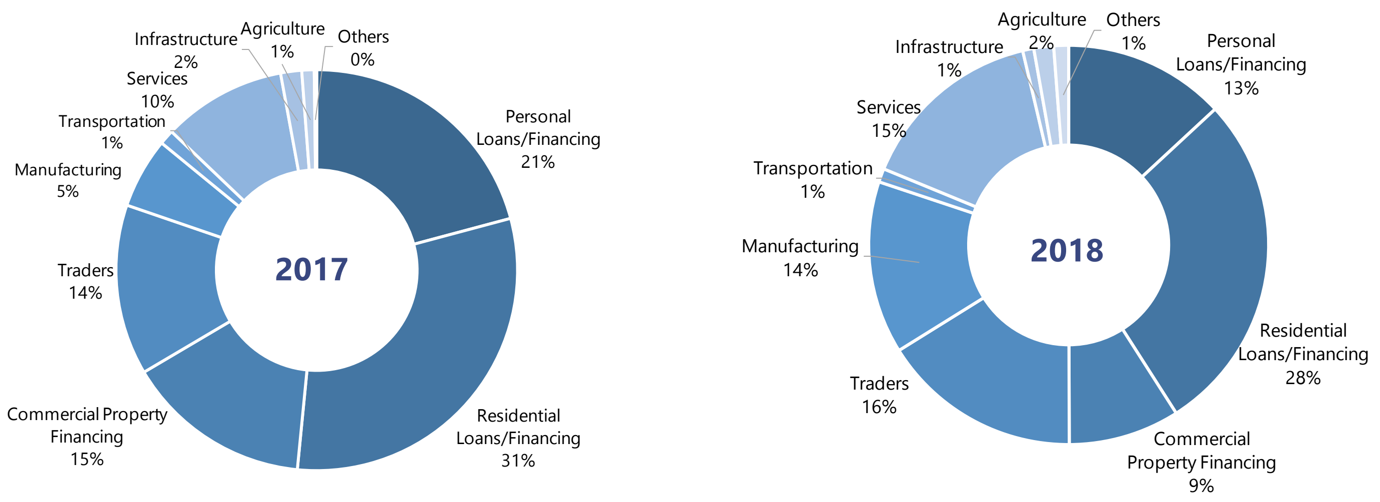
Within the corporate sector, the traders sector exhibited the highest credit quality risk in 2018 in terms of the volume of NPLF followed by services, manufacturing, commercial property, agriculture, and transportation. In comparison, commercial property, traders, services, manufacturing, infrastructure, and transportation were the major contributors to NPLF in 2017.

**Figure 5. Trends in NPLF of Banks by Corporate Sector: 2010–2018**




Source: AMBD

**Figure 6 & 7. Proportion of Sectoral NPLF to Total NPLF of Banks by Economic Sectors**




Source: AMBD

## 3.3 Household Sector Risk

### The Characteristics of the Household Sector in Brunei Darussalam

The income and expenditure patterns of households can indicate the demand for credit as well as the creditworthiness of the households by income groups.

Box 4 presents the trends in the income and expenditure of the household sector during the period between 2010–2011 and 2015–2016 based on a household expenditure survey carried out by the Department of Economic Planning and Development (DEPD) in 2015–2016.

**Box 4. Characteristics of the Household Sector in Brunei Darussalam by Income and Expenditure: 2010–2011 and 2015–2016**

The Department of Economic Planning and Development (DEPD), Ministry of Finance and Economy, of Brunei Darussalam conducted the Household Expenditure Survey 2015–2016 starting from 1 April 2015 until 31 March 2016.

Based on the above survey, the major characteristics of the household sector are as follows:

- During the survey period 2015–2016, a household in Brunei Darussalam spent, on average BND2,923 per month on household consumption — a very small rise of 1.0% from BND2,895 per month in 2010–2011.
- In terms of the median, the monthly household expenditure in 2015–2016 was BND2,205 compared to BND2,241 in 2010–2011. This indicates that 50% of the households in Brunei Darussalam spent less than BND2,205 per month.
- The above findings show that the demand for borrowing from the banks for consumption activities, in general, might have not increased substantially during the study period.
- As expected, the average and median monthly household expenditure of urban households had been higher compared to those in the rural areas during 2010–2011 to 2015–2016. As urban households have higher monthly expenditure than their rural counterparts, the banks may have a tendency to lend more to urban households.
- Income is a key factor to determine households' creditworthiness. The median household income in 2015 –2016 reached BND5,611 per month — a rise of 22.6% (or 4.2% per year) compared to BND4,576 in 2010 –2011. This shows that 50% of households earn less than or equal to BND5,611 per month and the rest earn more than BND5,611 per month.

During the study period, monthly income surged in all income groups with a large shift towards higher household income groups. For example:

- Proportion of households earning less than BND2,000 per month witness a decline in 2015–2016 accounting for 9.7% of total households from compared to 12.7% in 2010–2011.
- The median income of the group BND1,000–1,999 reached BND1,496 in 2015–2016 — a 2% decline from BND1,526 in 2010–2011. On the other hand, the median income for the group with income less than BND1,000, increased moderately by 4.2% to BND740 in 2015–2016 compared to BND710 in 2010–2011.
- In contrast, the proportion of households with a monthly income between BND2,000 and BND9,999 decreased moderately to 71.4% in 2015–2016 from 74.5% in 2010–2011.
- On the other hand, the proportion of households earning more than BND10,000 and above witnessed a significant surge from 12.8% in 2010–2011 to 18.9% in 2015–2016 with a median income of BND12,906 and BND13,628 respectively (a rise of 5.6% in the study period).

In 2015, AMBD and the Centre for Strategic and Policy Studies (CSPS) conducted a study on financial literacy and found that 50% of surveyed households did not have active savings, and that 25% relied on loans/ financing to cover daily expenses.

Source: Report of Summary Findings of Household Expenditure Survey (HES) 2015–2016, DEPD, Ministry of Finance and Economy

## Trends in Household Sector Credit Quality Risk

The household sector credit quality risk is measured by NPLF of the household sector and the Residential Property Price Index (RPPI), which is based on landed housing property. This section examines the credit quality risk of the household sector.

*Residential Property Price Index (RPPI)*

A sharp fall in residential property prices can impact the health of the real estate and construction industry involved in residential construction as well as households owning residential property. This, in turn, can escalate the credit quality risk of corporate and household borrowers related to residential property.

The RPPI which measures the residential property price in Brunei Darussalam witnessed a sharp fall of 12.1 points to reach 87.9 in 2018, compared to the base period in the first quarter of 2015 (**Table 23**). The RPPI declined by 6.5% in 2016 to reach 91.2, recovering slightly at 93.9 in 2017. The decline in RPPI could mean rental prices of residential property are also on a downward trend. This, in turn, increases the credit quality risk of household and corporate sector borrowers availing of loan/financing in residential property especially those who are renting out their properties.

### Trends in the NPLF of the Household Sector

**Figure 8** presents the trends in NPLF of household sector for 2010–2018.

As exhibited in **Figure 8**, NPLF of the household sector has recorded a continuous declining trend since 2010 except for a marginal rise in 2013 and 2017. Personal loans/financing accounted for the major portion of total household sector NPLF during 2010–2014 whereas the contribution of residential housing loans/financing was higher during 2015–2018 indicating higher credit quality risk.

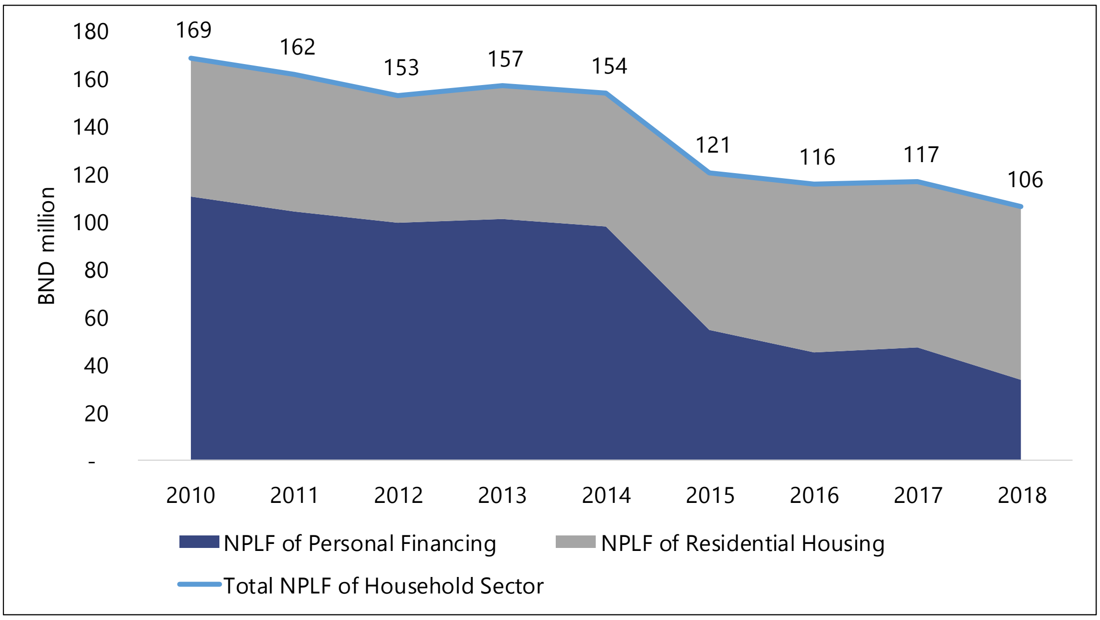
The credit quality risk of the household sector as measured by the volume of NPLF and the percentage of volume of NPLF to total NPLF of the banking sector continued to decline from its peak in 2014 with BND153.8 million and 53.5% of total NPLF to BND 115.8 million and 36.8% in 2016 respectively. The volume and the ratio rose to BND116.8 million and 51.7% in 2017 but fell significantly to 41.1% of total NPLF or BND106.4 million in 2018 (**Table 20**).

The decline in the total NPLF of the household sector during the period 2017–2018 was due mainly to the significant decline in NPLF in personal loans/ financing.

However, the credit quality risk in residential housing loans/financing witnessed a continuous increase during 2014–2018. From 2014, the volume of NPLF of residential housing finance increased continuously by 29.5% from BND55.9 million or 19.5% of total NPLF in 2014 to reach BND72.4 million or 27.9% of total NPLF in 2018 — a rise of 4.1% compared to 2017. A decrease in rental income and home values can affect mortgage repayments as well increase the probability of default by households who borrowed to buy their homes.

In contrast, from 2014, the volume of personal loans/ financing NPLF continued to decline to reach BND34.0 million or 13.1% of total NPLF in 2018 from BND97.9 million or 34.1% in 2014 — a 65.3% fall during this period. The implementation of AMBD's macroprudential policy on the limit on TDSR in 2015 could have been a contributing factor to the improved credit quality risk of the household sector during 2015–2017. In view of the relaxation in this policy in 2017, the fall in RPPI and a meagre economic growth of 0.1% in 2018, the banks need to adopt sound risk management practices and be vigilant in assessing the credit quality risk of the household sector, particularly residential housing financing.

**Figure 8. Trends in NPLF of Household Sector: 2010–2018**




Source: AMBD

## 3.4 Offshore Assets Risk

The level of bank intermediation is low as reflected by low loans/financing to deposit ratio. The banks, therefore, place their excess liquidity in offshore assets in the form of placements and investments abroad. The loans/financing to deposit ratio declined to 35.9% in 2018 compared to the peak at 42.9% in 2015 (**Table 7**).

Reflecting this trend, total offshore assets reached BND10.2 billion or 55.8% of total assets in 2018 from BND9.1 billion or 50.6% of total assets in 2016 (**Table 24**).

In view of the above, it is important to examine the risk associated with offshore assets and their impact on the business and performance of the domestic banking sector. The offshore asset risk of the banks in Brunei Darussalam depend on the volume, type of instruments, currency and country exposure and concentration, and maturity period. If the above risks are assessed to be high, the banks need to adopt appropriate risk mitigation strategies such as diversifying to a larger group of currencies and countries and utilising hedging instruments to address forex revaluation risk.

### Development and Performance of Offshore Assets

This section examines the recent development in the offshore placements and investments and the risk faced by the banks in Brunei Darussalam in terms of currency and country exposure and concentration. **Table 24** presents the distribution of offshore assets by type of instruments during the period 2014–2018.

After falling significantly by 20.5% in 2015, total offshore assets continued to rise during 2016–2018. They rose significantly by 25.9% y-o-y in 2016 reaching BND9.1 billion or 50.6% of total assets in 2016, and further increasing to BND10.2 billion or 55.8% in 2018 — a rise of 7.1% compared to 2017.

As of 2018, reflecting the need for maintaining a high portion of liquid assets, the bulk of offshore assets of the banks are placements outside Brunei Darussalam, which accounted for 42.9% of total assets whereas offshore investments accounted for 10.1% of total assets. Offshore nostro account balances with financial institutions abroad accounted for 1.8% and offshore loans/financing accounted for only 1.1% of total assets. The major component of offshore investments was debt securities, which constituted 7.6% of total offshore assets in 2018.

After increasing by 35.9% y-o-y in 2016, offshore placements remained stagnant during 2016–2017 hovering around BND7,164.9 million or 39.9% of total assets in 2016 and BND7,122.9 million or 40.7% in 2017. In 2018, placements recorded 10.3 % y-o-y rise to reach BND7,854.4 million or 42.9%. On the other hand, offshore investments rose significantly by 21.7% from BND1,543.8 million or 8.6% of total assets in 2016 to BND1,878.5 million or 10.7% in 2017 but they fell to BND1,848.8 million or 10.1% of total assets in 2018 — a y-o-y decline of 1.6%.

The provision for the decline in the value of investments was particularly higher in 2016 and 2017 indicating higher market risks of their investments. It rose by 177.0% in 2016 as compared to 2015. The provision fell significantly to BND5.3 million in 2018 compared to BND25.2 million in 2017.

*Currency Risk*

The volatility of currencies may cause vulnerability in the net asset values of the offshore placements and investments. High concentration of offshore placements and investments in only a few currencies may increase currency risk. In recent times, the global financial market has been witnessing high volatility, particularly emerging market currencies against the US dollar due to a perceived increased risk in these economies and a rapid increase in the US interest rate. It is, therefore, important to study currency exposure and concentration of offshore assets of the banking sector.

**Table 25** presents the trends in the offshore placements and investments of the banks in Brunei Darussalam during 2014–2018 by currency and country/region exposure. **Figure 9** presents the trends in offshore placements and investments by the banks in Brunei Darussalam by currency during 2010–2018.

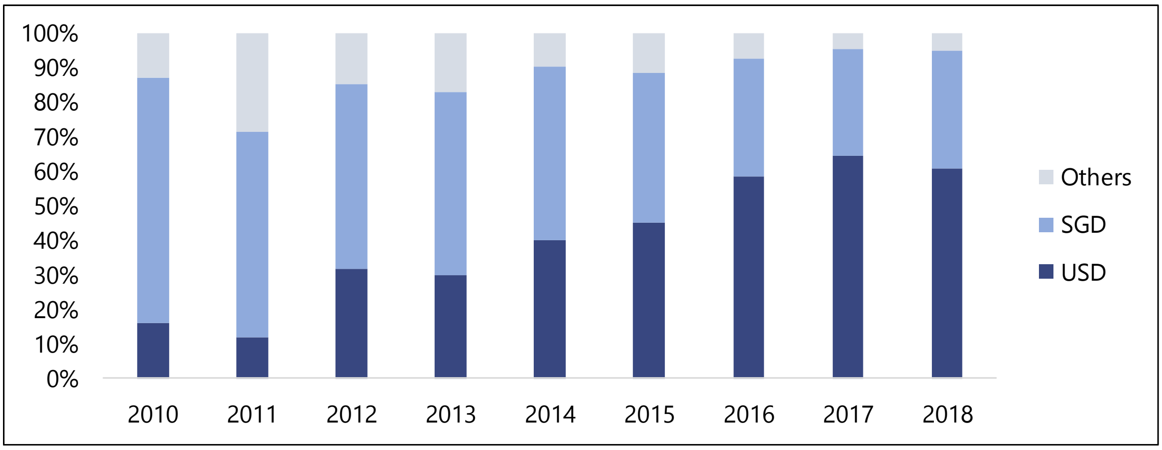
As exhibited in **Figure 9**, except for 2011, offshore placements and investments are mainly concentrated in two major currencies: the Singapore dollar and the US dollar. In spite of a decreasing trend during the period 2010–2014, offshore placements and investments in the Singapore dollar had been much larger than those in the US dollar until 2014. Reflecting the deterioration of the Singapore dollar against the US dollar, offshore placements and investments in the US dollar exceeded Singapore dollar offshore placements and investments in 2015, reaching a peak of 64.7% or BND5,847.4 million in 2017.

The share of US dollar in offshore placements and investments witnessed a continuous increasing trend during 2014–2017, moderating slightly in 2018 to 60.7% or BND5,903.1 million (**Table 25**).

The Singapore dollar accounted for 34.0% or BND3,003.7 million of offshore placements and investments in 2016, declining to 30.7% or BND 2,775.5 million in 2017 and rising to 34.3% or BND3,332.0 million of total offshore placements and investments in 2018. This share is still sizable relative to other currencies except for the US dollar due to the negligible currency risk since Brunei dollar is at one-to-one parity with the Singapore dollar. Proportions of other currencies, such as the euro, the British pound, the Malaysian ringgit, and the Australian dollar, in total offshore placements and investment continued to decline from 11.2% in 2015 to 4.6% in 2017, rising marginally to 5.0% in 2018.

During August–October 2018, several emerging market economies witnessed significant turmoil and/or selloff in their financial markets, namely in currency, bonds, and stocks triggered by the financial turmoil in Turkey and Argentina, which witnessed a near crisis situation. In the case of a severe emerging market crisis contagion, emerging market currencies as well as the Singapore dollar are expected to decline against the US dollar. This could mean banks that have placements and investments in Singapore dollar will face higher opportunity cost for not investing in the US dollar especially if the US dollar is on a rising trend.

**Figure 9. Trends in Offshore Placements and Investments by Banks in Brunei Darussalam by Currency: 2010–2018**




Source: AMBD

*Country Risk*

**Figure 10** presents the trends in offshore placements and investments by the banks in Brunei Darussalam by country/region during 2010-2018.

In terms of country exposure, Singapore's share of offshore placements and investments declined from 70.2% of total offshore placements and investments in 2010 to 46.8% in 2018. On the other hand, reflecting the increased need for placements and investments in Islamic financial instruments, the Gulf Countries' share witnessed a continuous increasing trend from 8.4% in 2010 to a peak of 40.0% in 2016 before marginally declining to 35.3% in 2018 (**Figure 10**).

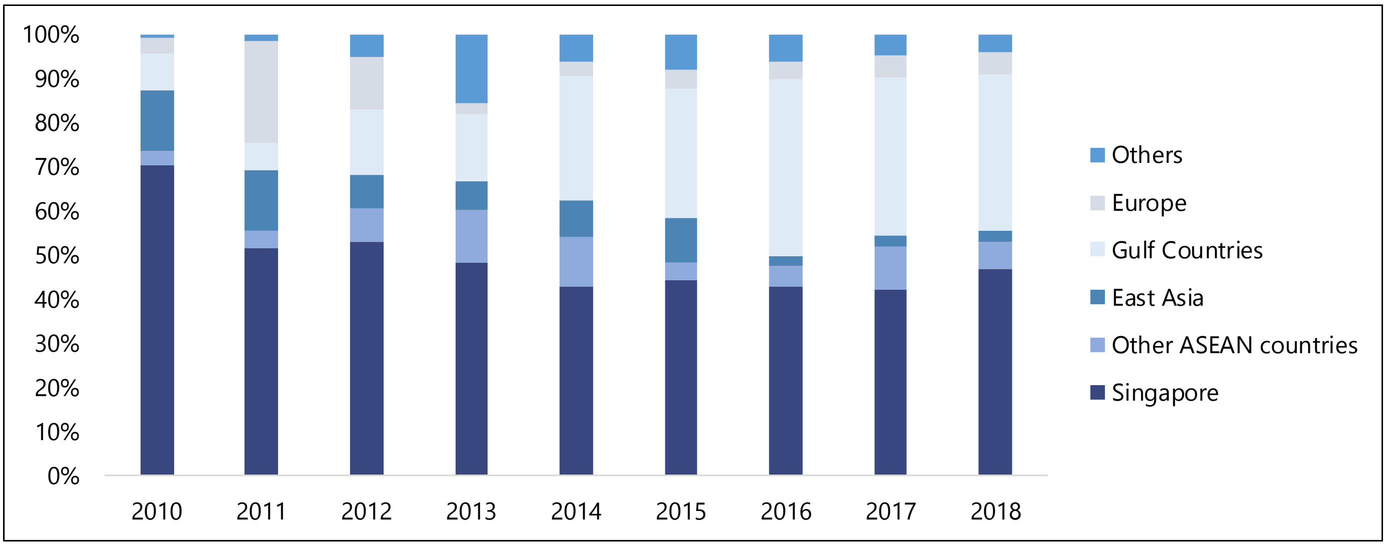
Singapore is highly dependent on trade and exports. A serious trade war between the US and China could adversely impact Singapore's economy due to its strong trade and export linkage with both China and the US as well as its strong participation in the world production network and supply chain.

A combination of an emerging market crisis contagion and a severe US–China trade war could affect the asset quality of Singaporean banks with high exposure in the trade or export-oriented industries. Thus, the banks in Brunei Darussalam with large placements and investments in Singapore's banks may face increased risk if the above events happened simultaneously.

Meanwhile, performance of the banks in the major Gulf Countries could also be affected by emerging market crises, the price of oil and gas, and geopolitical tensions. Thus, banks with significant exposure in the affected banks of the Gulf Countries may face increased market risks in their investment portfolios.

These external factors mentioned above may increase the risk of placements and investments of the banks in Brunei Darussalam with an adverse impact on the value of banking sector assets in these countries.

**Figure 10. Trends in Offshore Placements and Investments by Country/Region: 2010–2018**




Source: AMBD
Note: Others include the United States, Australia, etc.

*Liquidity Risk*

The ratio of the total offshore assets to total deposits increased from 60.1% in 2016 to 66.7% in 2018. Any significant loss or deterioration of the portfolio of offshore assets, specifically offshore placements, may significantly affect the liquidity of the banks in Brunei Darussalam.

The bulk of offshore assets of the banks are placements outside Brunei Darussalam accounting for 76.8% of total offshore assets, whereas offshore investments accounted for 18.1%. On the other hand, offshore nostro balances accounted for 3.3% and offshore loans/financing accounted for only 1.9% of total offshore assets. As the placements are usually made in short-term highly liquid instruments in foreign banks, the liquidity risk of the offshore assets remains low and manageable.

### Offshore Investments Risk

**Table 26** presents the exposure of total offshore investments by currency and country/region during 2014–2018. Trends in offshore investments of the banks in Brunei Darussalam by currency and by country/region during the period 2010–2018 is presented in **Figures 11 and 12** respectively.

*Currency Risk*

The banks have been shifting their offshore investments towards US dollar-denominated instruments since 2010. The proportion of investments in the US dollar soared continuously (except for 2013 and 2014) from 16.2% of total offshore investments in 2010 to 89.3% in 2018.

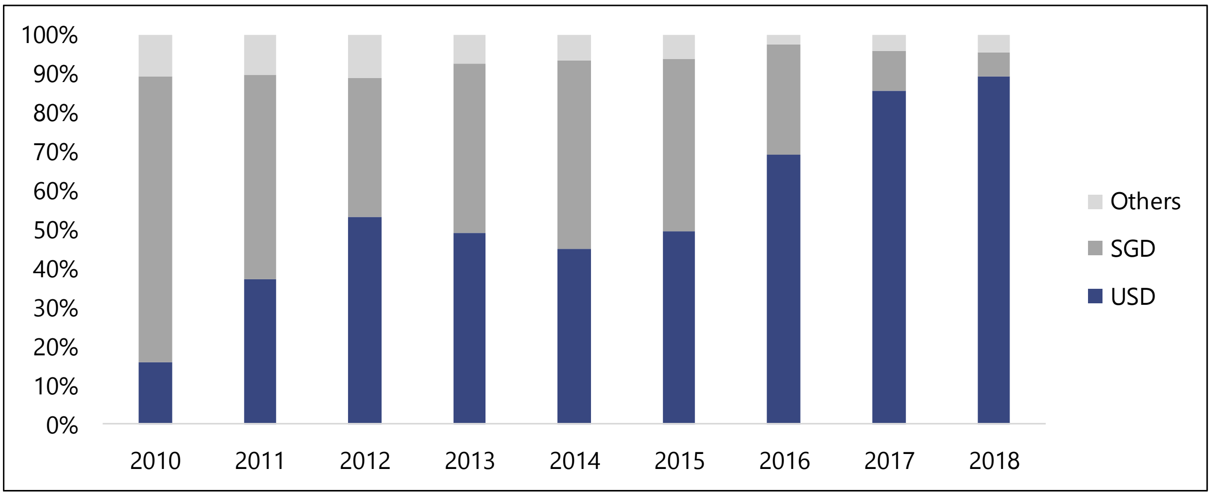
On the other hand, Singapore dollar-denominated offshore investments decreased markedly from 73.3% to 6.5% during the same period (**Figure 11**).

For 2018, the potential for a currency risk event of the offshore investments did not materialize as the US dollar has been appreciating against most currencies including the Brunei dollar due to the rise in the US interest rate.

*Country Risk*

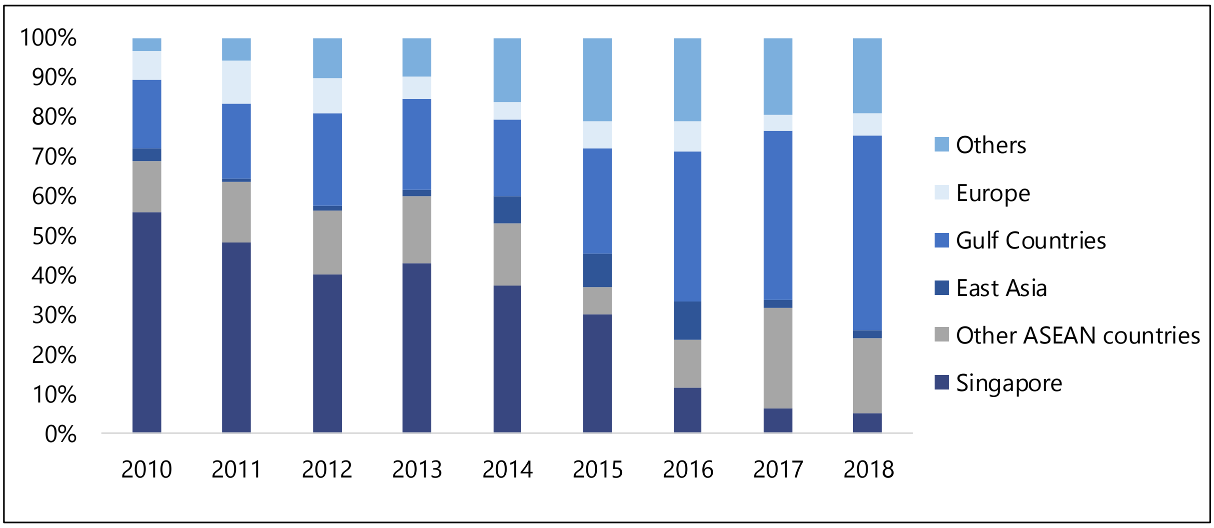
As demonstrated in **Figure 12**, Singapore's share in the total offshore investments by the banks in Brunei Darussalam declined continuously from 37.3% in 2014 to 4.9% in 2018. In contrast, the share of the Gulf Countries continued to rise from 19.2% to reach 49.0% in the same period. This may be due to the increased offshore investments of some banks in Islamic instruments available in the Gulf Countries.

**Figure 11. Trends in Offshore Investments by Currency: 2010–2018**




Source: AMBD

**Figure 12. Trends in Offshore Investments by Country/Region: 2010–2018**




Source: AMBD
Note: Others include the United States, Australia, etc.

ASEAN countries excluding Brunei Darussalam and Singapore accounted for 19.2% of total offshore investments or BND342.3 million in 2018 compared to 25.2% or BND472.8 million in 2017. European countries constituted 5.6% of total offshore investments or BND100.8 million in 2018 compared to 4.0% or BND74.7 million in the previous year. Offshore investments in countries other than those listed in **Table 26** constituted BND344.2 million or 19.3% of total offshore investments.

## Risk of Offshore Investments in Equity

**Table 27** presents the exposure of offshore investments in equity by currency and country/region during 2014–2018. For 2018, equity constituted 5.9% of total offshore investments.

*Currency Risk*

US dollar-denominated equities soared from 23.7% in 2014 to 99.9% in 2018. This reflects the expectation of the rise of the US dollar against the Singapore dollar and other major currencies as well as emerging market currencies, and resulting benefits in the net asset values of the cross-border assets.

*Country Risk*

In terms of country exposure, offshore investments in equities were highly concentrated in European markets with 92.0% share in 2018. If the US dollar-denominated offshore investments in Europe were hedged against the euro, country risk would be low as the US dollar rose against major currencies including the Singapore dollar as well as against emerging market currencies.

However, European markets were not performing well with downside risks primarily due to weak economies; particularly in Germany and Italy, and also because of the unresolved Brexit deal. This could have an adverse impact on the net asset values of banks' portfolios in European securities.

## Risk of Offshore Investments in Corporate Sukuk and Bonds

**Table 28** presents the exposure of offshore investments in corporate Sukuk and bonds by currency and country/region during 2014–2018. In 2018, the share of corporate Sukuk and bonds was 78.1% of total offshore investments.

*Currency Risk*

The share of US dollar-denominated Sukuk and bonds rose continuously from 44.0% of total offshore investments in 2014 to reach 88.4% in 2018 indicating a high concentration in the US dollar. On the other hand, Singapore dollar-denominated instruments fell sharply from 52.9% to 3.1% during the same period. As explained earlier, this trend may be due to the expectation of the rise of the US dollar against the Singapore dollar and other currencies.

*Country Risk*

Reflecting the availability of Islamic financial instruments, offshore Sukuk and bond investments in the Gulf Countries witnessed a continuous increasing trend during 2014–2018. The ratio of offshore investments in the Gulf Countries to total Sukuk and bond investments more than doubled from 21.6% in 2014 to 53.9% in 2018, indicating high concentration. After rising considerably to 25.2% in 2017 from 11.8% in 2016, other ASEAN countries' (except for Brunei Darussalam and Singapore) share fell sharply to 16.8% in 2018. This may be due to increased demand of Sukuk by Islamic banks and the rising availability of this financial instrument in the Gulf Countries.

Risk factors which could affect the bond prices and hence impacting the net asset value of the banks' portfolio are emerging market crises and the tightening monetary policy by the US coupled with increased geopolitical tensions (particularly in the Gulf Countries and the Middle East).

**Table 20. Trends in Non-Performing Loans/Financing by Economic Sectors: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sector | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| **Household Sector** | **153.8** | **53.5** | **120.9** | **40.3** | **115.8** | **36.4** | **116.8** | **51.7** | **106.4** | **41.1** |
| Personal Loans/ Financing | 97.9 | 34.1 | 54.7 | 18.2 | 45.5 | 14.3 | 47.2 | 20.9 | 34.0 | 13.1 |
| Residential Housing | 55.9 | 19.5 | 66.2 | 22.1 | 70.4 | 22.1 | 69.6 | 30.8 | 72.4 | 27.9 |
| **Corporate Sector** | **133.5** | **46.5** | **179.0** | **59.7** | **202.1** | **63.6** | **108.9** | **48.3** | **152.8** | **58.9** |
| Commercial Property | 46.3 | 16.1 | 56.5 | 18.8 | 41.1 | 12.9 | 33.8 | 15.0 | 23.2 | 9.0 |
| Traders | 20.0 | 6.9 | 30.7 | 10.2 | 42.8 | 13.5 | 31.2 | 13.8 | 42.1 | 16.2 |
| Manufacturing | 9.4 | 3.3 | 25.4 | 8.5 | 49.9 | 15.7 | 12.8 | 5.7 | 36.4 | 14.0 |
| Transportation | 6.4 | 2.2 | 6.3 | 2.1 | 19.5 | 6.1 | 2.8 | 1.2 | 2.8 | 1.1 |
| Services | 15.1 | 5.3 | 22.8 | 7.6 | 26.9 | 8.5 | 22.6 | 10.0 | 39.0 | 15.1 |
| Infrastructure | 12.2 | 4.2 | 14.6 | 4.9 | 3.0 | 1.0 | 3.9 | 1.7 | 2.2 | 0.9 |
| Telecommunica-tions and Infor-mation Technology | 2.9 | 1.0 | 1.8 | 0.6 | 0.6 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 |
| Tourism | 16.7 | 5.8 | 17.1 | 5.7 | 13.0 | 4.1 | 0.2 | 0.1 | 2.8 | 1.1 |
| Agriculture | 4.6 | 1.6 | 3.8 | 1.3 | 5.3 | 1.7 | 1.5 | 0.6 | 4.1 | 1.6 |
| **Total Non-Performing Loans/Financing** | **287.3** | **100** | **299.8** | **100** | **317.9** | **100** | **225.7** | **100** | **259.2** | **100** |

Source: AMBD
Note: Numbers may not sum precisely due to rounding

**Table 21. Correlation Between Selected Banking Indicators and Real Non-Oil and Gas GDP: Quarterly Panel Data: Q2 2010–Q2 2018**

| Banking Indicators | Real GDP (Non-Oil and Gas) |
|---|---|
| Private Deposit | 0.63* |
| Corporate Credit | 0.52* |
| Total NPLF | –0.80* |
| NPLF to Total Loans/Financing | –0.80* |
| Household NPLF | –0.63* |
| Corporate NPLF | –0.77* |

Source: AMBD Staff
Note: * indicates statistical significance at 95% confidence level
Public defined as government and public non-financial corporations
Private defined as Other Depository Corporations, Other Financial Corporations, Other Non-Financial Corporations, and Other Resident Sectors

**Table 22: Non-Performing Loans/Financing by Oil and Gas and Non-Oil and Gas Sectors: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sector | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Oil and Gas | 6.1 | 4.6 | 18.3 | 10.2 | 37.6 | 18.6 | 2.8 | 2.5 | 5.0 | 3.3 |
| Non-Oil and Gas[1/] | 127.4 | 95.4 | 160.6 | 89.8 | 164.5 | 81.4 | 106.2 | 97.5 | 147.8 | 96.7 |
| Total NPLF of the Corporate Sector | 133.5 | 100 | 179.0 | 100 | 202.1 | 100 | 108.9 | 100 | 152.8 | 100 |

Source: AMBD

1/ Non-oil and gas sector includes the downstream oil and gas related activities

**Table 23. Residential Property Price Index (based on residential landed property): 2015–2018**

| Year/Quarter | Q1 | Q2 | Q3 | Q4 | Annual (Average of Quarters) |
|---|---|---|---|---|---|
| 2015 | 100 | 96.15 | 99.60 | 94.47 | 97.56 |
| 2016 | 91.67 | 88.26 | 93.97 | 90.93 | 91.21 |
| 2017 | 89.98 | 99.96 | 90.62 | 94.93 | 93.88 |
| 2018 | 87.28 | 90.66 | 85.45 | 86.72 | 87.85 |

Source: AMBD

**Table 24. Distribution of Total Offshore Assets by Type of Instruments: 2014–2018 (in BND million)**

| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Instruments | Amount | % of total assets | Amount | % of total assets | Amount | % of total assets | Amount | % of total assets | Amount | % of total assets |
| **Placements** | 6,947.7 | 37.2 | 5,274.1 | 30.9 | 7,164.9 | 40.0 | 7,122.9 | 40.7 | 7,854.4 | 42.9 |
| **Investments** | 1,607.4 | 8.6 | 1,595.0 | 9.4 | 1,543.8 | 8.6 | 1,878.5 | 10.7 | 1,848.8 | 10.1 |
| Foreign Govt Treasury/ Securities | 394.6 | 2.1 | 367.7 | 2.2 | 106.5 | 0.6 | 200.8 | 1.1 | 186.1 | 1.0 |
| Share and Unit Trusts – publicly listed | 2.8 | 0.0 | 2.5 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.1 | 0.0 |
| Share and Unit Trusts – not listed | 14.0 | 0.1 | 11.4 | 0.1 | 10.2 | 0.1 | 1.5 | 0.0 | 2.1 | 0.0 |
| Debt Securities | 979.8 | 5.2 | 952.8 | 5.6 | 1,156.5 | 6.6 | 1,450.0 | 8.3 | 1,386.2 | 7.6 |
| Other Securities | 229.0 | 1.2 | 274.1 | 1.6 | 307.9 | 1.7 | 251.2 | 1.4 | 279.5 | 1.5 |
| Provision for decline in value of investments | −12.9 | −0.1 | −13.6 | −0.1 | −37.5 | −0.2 | −25.2 | −0.1 | −5.3 | 0.0 |
| **Loans/ Financing** | 197.1 | 1.1 | 148.3 | 0.9 | 78.2 | 0.4 | 104.0 | 0.6 | 193.6 | 1.1 |
| **Balances with Banks and Financial Institutions Abroad (Nostro Account)** | 310.4 | 1.7 | 188.7 | 1.1 | 282.2 | 1.6 | 446.9 | 2.6 | 333.1 | 1.8 |
| **Total Offshore Assets** | **9,062.5** | **48.5** | **7,206.0** | **42.3** | **9,069.1** | **50.6** | **9,552.4** | **54.6** | **10,229.9** | **55.9** |
| **Total Assets** | **18,677.3** | **100** | **17,040.9** | **100** | **17,918.4** | **100** | **17,484.1** | **100** | **18,328.3** | **100** |

Source: AMBD

**Table 25. Trends in Offshore Placements and Investments by Currency and Country/Region: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Currency | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| USD | 3,498 | 40.1 | 3,174 | 45.2 | 5,189 | 58.8 | 5,847 | 64.7 | 5,903 | 60.7 |
| SGD | 4,404 | 50.5 | 3,067 | 43.6 | 3,004 | 34.0 | 2,775 | 30.7 | 3,332 | 34.3 |
| Others | 821 | 9.4 | 788 | 11.2 | 635 | 7.2 | 420 | 4.6 | 485 | 5.0 |
| Total | 8,723 | 100 | 7,029 | 100 | 8,828 | 100 | 9,042 | 100 | 9,720 | 100 |

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country/Region | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Singapore | 3,745 | 42.9 | 3,108 | 44.2 | 3,776 | 42.8 | 3,803 | 42.1 | 4,553 | 46.8 |
| Other ASEAN countries | 969 | 11.1 | 280 | 4.0 | 419 | 4.7 | 888 | 9.8 | 608 | 6.3 |
| East Asia | 740 | 8.5 | 715 | 10.2 | 200 | 2.3 | 236 | 2.6 | 251 | 2.5 |
| Gulf Countries | 2,457 | 28.2 | 2,057 | 29.3 | 3,532 | 40.0 | 3,220 | 35.6 | 3,428 | 35.3 |
| Europe | 270 | 3.1 | 318 | 4.5 | 348 | 3.9 | 468 | 5.2 | 495 | 5.1 |
| Others | 542 | 6.2 | 551 | 7.8 | 553 | 6.3 | 427 | 4.7 | 385 | 4.0 |
| Total | 8,723 | 100 | 7,029 | 100 | 8,828 | 100 | 9,042 | 100 | 9,720 | 100 |

Source: AMBD

**Table 26. Trends in Offshore Investments by Currency and Country/Region: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Currency | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| USD | 782 | 45.3 | 878 | 49.8 | 1,118 | 69.5 | 1,613 | 85.9 | 1,593 | 89.3 |
| SGD | 832 | 48.2 | 778 | 44.2 | 454 | 28.2 | 188 | 10.0 | 116 | 6.5 |
| Others | 112 | 6.5 | 105 | 6.0 | 36 | 2.2 | 76 | 4.0 | 76 | 4.2 |
| Total | 1,726 | 100 | 1,761 | 100 | 1,608 | 100 | 1,877 | 100 | 1,785 | 100 |

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country/Region | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Singapore | 643 | 37.3 | 532 | 30.2 | 187 | 11.6 | 120 | 6.4 | 89 | 5.0 |
| Other ASEAN countries | 272 | 15.8 | 116 | 6.6 | 196 | 12.2 | 473 | 25.2 | 342 | 19.2 |
| East Asia | 121 | 7.0 | 150 | 8.5 | 153 | 9.5 | 36 | 1.9 | 34 | 1.9 |
| Gulf Countries | 331 | 19.2 | 469 | 26.7 | 608 | 37.8 | 805 | 42.9 | 875 | 49.0 |
| Europe | 79 | 4.6 | 122 | 6.9 | 125 | 7.8 | 75 | 4.0 | 101 | 5.6 |
| Others | 280 | 16.2 | 372 | 21.1 | 339 | 21.1 | 368 | 19.6 | 344 | 19.3 |
| Total | 1,726 | 100 | 1,761 | 100 | 1,608 | 100 | 1,877 | 100 | 1,785 | 100 |

Source: AMBD

**Table 27. Distribution of Offshore Investments in Equity by Currency and Country/Region: 2014–2018 (in BND million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Currency | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| USD | 48.6 | 23.6 | 105.0 | 48.2 | 122.5 | 75.6 | 82.2 | 99.7 | 108.2 | 99.9 |
| SGD | 77.0 | 37.4 | 34.1 | 15.7 | 29.4 | 18.2 | 0.2 | 0.3 | 0.08 | 0.1 |
| Others | 80.3 | 39.0 | 78.5 | 36.1 | 10.0 | 6.2 | 0 | 0.0 | 0 | 0.0 |
| **Total** | **206** | **100** | **217.6** | **100** | **161.9** | **100** | **82.4** | **100** | **108.3** | **100** |

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country/Region | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Singapore | 42.4 | 20.6 | 0.7 | 0.3 | 0.7 | 0.4 | 0.7 | 0.8 | 1.9 | 1.8 |
| Other ASEAN countries | 4.5 | 2.1 | 2.2 | 1.0 | 2.2 | 1.4 | 2.2 | 2.7 | 2.5 | 2.3 |
| East Asia | 36.8 | 17.9 | 37.6 | 17.3 | 33.0 | 20.4 | 1.7 | 2.1 | 0.0 | 0.0 |
| Gulf Countries | 76.8 | 37.3 | 71.2 | 32.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Europe | 39.1 | 19.0 | 78.9 | 36.3 | 81.5 | 50.3 | 73.6 | 89.3 | 99.7 | 92.0 |
| Others | 6.5 | 3.1 | 27.0 | 12.4 | 44.5 | 27.5 | 4.2 | 5.1 | 4.2 | 3.9 |
| **Total** | **206.1** | **100** | **217.6** | **100** | **161.9** | **100** | **82.4** | **100** | **108.3** | **100** |

Source: AMBD

**Table 28. Distribution of Offshore Investments in Corporate Sukuk and Bonds by Currency and Country/Region: 2014–2018 (in BND Million)**

| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Currency | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| USD | 428.6 | 44.0 | 528.2 | 51.9 | 768.3 | 63.3 | 1,228.8 | 82.5 | 1,276.6 | 88.4 |
| SGD | 515.1 | 52.9 | 463.5 | 45.5 | 418.8 | 34.5 | 185.6 | 12.5 | 44.6 | 3.1 |
| Others | 30.9 | 3.1 | 26.0 | 2.6 | 25.9 | 2.2 | 75.8 | 5.0 | 122.8 | 8.5 |
| **Total** | **974.6** | **100** | **1,017.7** | **100** | **1,213.0** | **100** | **1,490.1** | **100** | **1,444.0** | **100** |

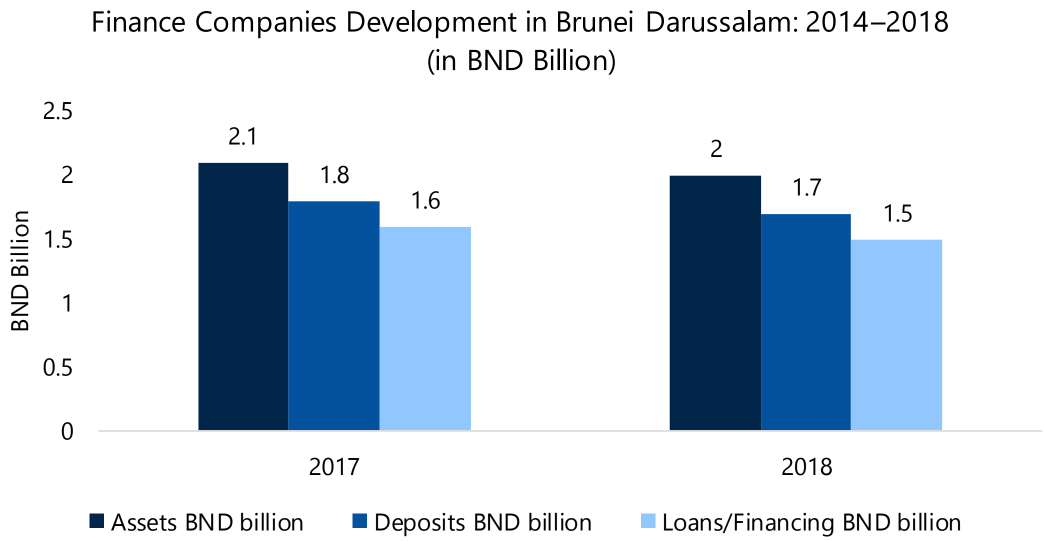
| Year | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country/Region | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| Singapore | 212.5 | 21.8 | 189.6 | 18.6 | 148.5 | 12.2 | 95.1 | 6.4 | 51.1 | 3.5 |
| Other ASEAN countries | 216.5 | 22.2 | 57.4 | 5.6 | 142.7 | 11.8 | 375.4 | 25.2 | 242.5 | 16.8 |
| East Asia | 84.1 | 8.6 | 108.5 | 10.7 | 114.7 | 9.5 | 34.0 | 2.2 | 34.0 | 2.3 |
| Gulf Countries | 210.1 | 21.6 | 293.7 | 28.9 | 488.4 | 40.3 | 640.2 | 43.0 | 777.7 | 53.9 |
| Europe | 39.4 | 4.0 | 42.4 | 4.2 | 43.4 | 3.5 | 1.1 | 0.1 | 1.1 | 0.1 |
| Others | 212.0 | 21.8 | 326.1 | 32.0 | 275.3 | 22.7 | 344.3 | 23.1 | 337.6 | 23.4 |
| **Total** | **974.6** | **100** | **1,017.7** | **100** | **1,213.0** | **100** | **1,490.1** | **100** | **1,444.0** | **100** |

Source: AMBD

# 04
# FINANCE COMPANIES DEVELOPMENT

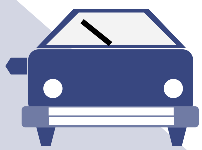
The finance companies’ assets, deposits, and loans/financing declined moderately in 2018. The number of automobile sales declined continuously between 2014 and 2017, with a slight rise of 0.2% in 2018, which could be a reflection of low consumer confidence. As a result, the number of loans/financing of the finance companies continued to decline during this period. Both automobile loans/financing and consumer durables’ loans/financing exhibited similar declining trends.

As indicated by the financial soundness indicators, the health of the finance companies improved in 2018 in terms of capital adequacy, credit quality risk, and profitability, whereas the liquidity and efficiency ratios had deteriorated moderately. The credit quality risk had reduced and remained low as the amount of gross NPLF and the NPLF ratio, and the net NPLF ratio declined in 2018 compared to 2017.



Source: AMBD

Automobile sales declined continuously between 2014 and 2017 and rose moderately by 0.2% in 2018



Health of finance companies improved in 2018

**12.9%**

Total Capital Funds to Total Assets

**1.8%**

NPLF to Total Capital Funds

**1.0%**

NPLF to Gross Financing

**3.3%**

Return on Assets

**22.5%**

Return on Equity

## 4.1 Finance Companies Development

There are currently two licensed finance companies operating in Brunei Darussalam: Baiduri Finance Berhad (a subsidiary of Baiduri Bank) and Bank Islam Brunei Darussalam (BIBD) At-Tamwil Berhad, (a subsidiary of BIBD) (**Table 29**). Prior to 2017, Brunei Darussalam had three active finance companies including HSBC Finance (a subsidiary of HSBC Bank). However, as HSBC exited Brunei Darussalam in 2017, its subsidiary HSBC Finance also exited the market.

Baiduri Finance Berhad provides conventional financial services to individuals and businesses whereas BIBD At -Tamwil Berhad provides Syariah-compliant Islamic financial services. The financial services include fixed and savings deposits and credit facilities, namely automobile loans/financing and consumer durable loans/financing.

## 4.2 Overview of Finance Companies Development

This section presents an overview of the development of the finance companies with respect to their key performance parameters.

**Table 30** presents the trends in the assets, capital, loans/financing, deposits, and NPLF of the finance companies during the period 2014–2018.

In terms of the level of intermediation, the finance companies, on average, performed fairly well with loans/financing to deposit ratio of 104.5% during 2014–2018 compared to an average of 36.9% for the banking sector during the same period (**Table 8** and **Table 32**).

The major performance indicators, namely assets, deposits, and loans/financing declined moderately in 2018 compared to the previous year. On the other hand, the amount of gross NPLF and net NPLF declined significantly during the same period.

The total assets of the finance companies declined from BND2.1 billion in 2017 to BND2.0 billion in 2018 — a decline of 4.9% as a result of a decline in loans/ financing, cash, and placement with banks.

In terms of the relative size to the economy, the ratio of total assets of the finance companies to GDP increased continuously during 2014–2016 reaching 13.3% of GDP in 2016 from 10.8% of GDP in 2014. The contribution of the finance companies to total assets of the financial sector recorded a small decline from 10.4% in 2014 to 9.1% in 2018.

The capital of the finance companies reached a peak of BND441.7 million in 2015 but witnessed a sharp decline of 42.0% to BND256.0 million in 2018.

After witnessing a growth of 9.0% y-o-y in 2017, the deposit mobilisation declined in 2018 to BND1.7 billion compared to BND1.8 billion in 2017. The contribution of the finance companies' deposits to total deposits of the financial sector remained at an average of 9.9% during 2014–2018, reaching 9.8% of total deposits in 2018 — a 0.8 percentage points decline compared to the previous year.

The business of the finance companies as measured by the level of loans/financing declined continuously during 2014–2018 to reach BND1.5 billion in 2018 from a peak of BND2.0 billion in 2014. Loans/financing by the finance companies play an important role in providing an average 22.9% of total loans/financing of the financial sector from 2014 to 2018. The contribution of the finance companies' loans/financing, however, declined from 26.0% of the total loans/financing of the financial sector in 2014 to 22.0% in 2018. A number of factors could be attributing to the fall in loans/financing by the finance companies including the slowdown in the economy in 2014-2016 as well as the rising local unemployment as shown in **Table 2**.

In terms of the credit quality risk, after a y-o-y decline of 8.4% or BND17.8 million in 2016, the gross amount of NPLF of the finance companies recorded an increase of 7.6% in 2017 reaching BND19.1 million. The NPLF, however, recorded an improvement in 2018 with a gross amount of NPLF of BND14.8 million — a 22.4% decline compared to the previous year.

The improvement in the amount of net NPLF was more marked with a decline of 45.5% in 2018 compared to the previous year, reaching BND4.5 million.

### 4.3 Trends in Loans/Financing

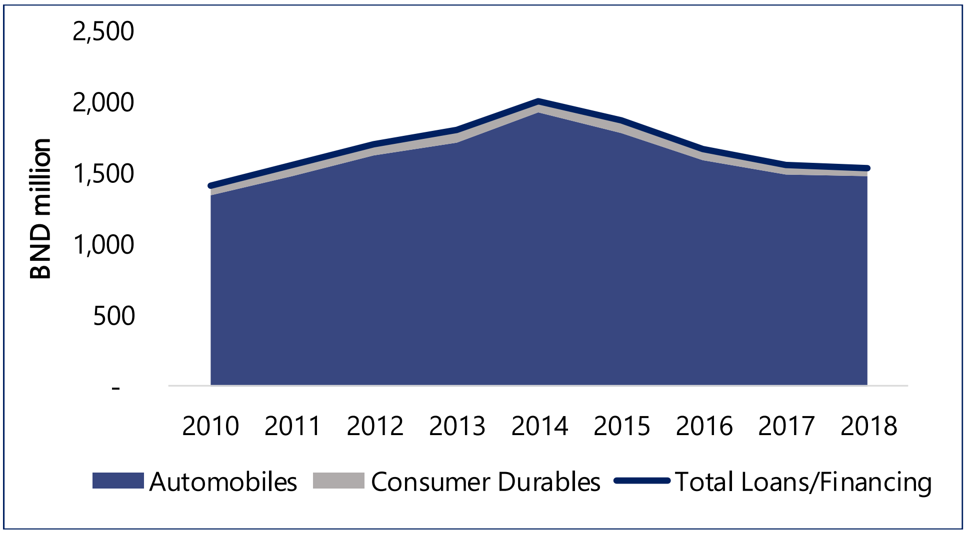
**Table 31** and **Figure 13** present the trends in loans/financing of the finance companies by type of loans/financing, namely automobile and consumer durable loans/financing as well as automobile sales during the period 2014–2018 (**Figure 13**).

Automobile sales, in general, provide a good indication of consumer confidence as well as demand for automobile loans/financing in Brunei Darussalam. Reflecting the sluggish economy and employment opportunities, the number of automobile sales recorded a continuous decline each year during 2014–2017. Overall, automobile sales fell from 18,114 in 2014 to 11,209 in 2017 — a decline of 38.1%. In 2018, however, sales recorded a slight rise of 0.2% reaching 11,226.

Reflecting the continuous decline in automobile sales during 2014–2017, the business of the finance companies in terms of loans/financing continued to decline from BND2.0 billion in 2014 to BND1.6 billion in 2017 — a fall of 22.5%. In 2018, loans/financing declined marginally by 1.1% to reach BND1.5 billion, primarily due to a 19.9% decline in consumer durables' loans/financing.

As exhibited in **Figure 13**, the loans/financing of the finance companies witnessed a sharp increasing trend during 2010–2014 followed by a declining trend during 2015–2018.

**Figure 13. Trends in Loans/Financing of Finance Companies by Type of Loans/Financing: 2010–2018**




Source: AMBD

Automobile loans/financing constituted a major portion of total loans/financing during the period 2014 –2018 with an average of 95.8% of total loans/ financing, and 96.4% in 2018. On the other hand, the contribution of consumer durable loans/financing declined from the peak of 4.7% of total loans/financing in 2016 to 3.6% in 2018.

After a healthy y-o-y rise of 12.6% in 2014, automobile loans/financing recorded a continuous decline each year during the period 2015–2018. Overall, automobile loans/financing declined from BND1,930.0 million in 2014 to BND1,483.9 million in 2018. Similarly, since 2014, consumer durable loans/financing recorded a continuous decline except for 2015 (with a y-o-y rise of 8.7%) to BND55.2 million in 2018 from BND79.0 million in 2014.

In order to protect borrowers' interest, AMBD stipulated maximum flat interest/profit rates in 2013 under the notice "Effective Interest Rates/Annualised Profit Rates" for automobile loans/financing for new and used motor vehicles. The maximum flat interest/ profit rates per annum for new and used motor vehicles are 4.25% and 4.75%, respectively.

## 4.4 Assessment of Health of Finance Companies

**Table 32** presents the trends in financial soundness indicators of the finance companies in the areas of capital adequacy, credit quality, profitability, and liquidity for the period 2014–2018.

The NPLF and profitability of the finance companies remained robust during the period 2014–2018. Liquidity risk, however, remained high during this period. Meanwhile, the level of capitalisation remained moderate.

In terms of the capital adequacy, total capital funds to total assets of the finance companies declined from 19.5% in 2015 to 12.9% in 2018 indicating lower capitalisation. On the other hand, the availability of capital after specific provisions for addressing NPLF improved during the period 2014–2018. NPLF (net of specific provisions) to capital funds declined to 1.8% in 2018 compared to 2.8% in 2014 and 3.1% in 2017.

With respect to NPLF, the gross NPLF ratio of finance companies remained, on average, at a low level of 1.0% during the period 2014–2018. The ratio declined moderately to 1.0% in 2018 compared to 1.2% in 2017 as a result of a sharp decline in gross amount of NPLF. Consequently, the net NPLF ratio fell significantly from 0.6% in 2014 to 0.3% in 2018.

The total profit before tax of the finance companies improved significantly by 9.7% reaching BND67.9 million in 2018 from BND61.9 million in 2017. Profit after tax also recorded an increase of 19.4% to reach BND60.7 million in 2018 from BND50.9 million in 2017.

The profitability of the finance companies as measured by the return on assets (before tax) deteriorated from its peak of 4.0% in 2015 to reach 2.9% in 2017. Amidst the decline in assets, deposits, and loans/financing, the return on assets (before tax) improved to 3.3% in 2018 primarily due to a sharp decline in NPLF and a moderate rise in loans/financing to deposit ratio. The profitability as measured by the return on equity (after tax) declined significantly from 22.5% in 2014 to 14.9% in 2017 but recovered considerably to reach the level of 2014 in 2018. As exhibited in **Table 8** and **Table 32**, the profitability of the finance companies remained healthier compared to that of the banking industry. In 2018, the return on assets and the return on equity of the banking sector stood at 1.5% and 11.4%, respectively.

The efficiency ratio of the finance companies as measured by the non-interest/profit expense to gross income remained healthy compared to the performance of the banking sector. Compared to the ratio of 48.1% for the banking sector, the efficiency ratio of the finance companies recorded 36.9% in 2018 — a marginal deterioration compared to 34.7% in 2014 and 2017.

In contrast to the above performance, the liquidity risk of the finance companies remained high during the period 2014–2018. As exhibited in **Table 8** and **Table 32**, the liquidity risk of the banking sector remained significantly lower compared to that of the finance companies. As the finance companies are subsidiaries of the banks with high liquidity, the liquidity risk of this sector remained manageable.

Even though the loans/financing to deposit ratio declined significantly from 125.4% in 2014 to 92.6% in 2018, the ratio is considerably higher compared to a ratio of 35.6% of the banking sector in 2018. The ratio for the finance companies increased by 4.5 percentage points in 2018 against 88.1% in 2017 mainly due to a moderate fall in deposit level in spite of a marginal decline in loans/financing.

In addition, the liquidity ratio as measured by the liquid assets to total assets remained low during the period 2014–2018. Compared to 51.7% for the banking sector, the ratio for the finance companies declined to 16.4% in 2018 from 19.4% in 2017 primarily due to a decline in cash and cash equivalents and placements with the banks. Reflecting the above trend, compared to 61.8% for the banking sector, the liquid assets to total deposits for the finance companies declined to 19.7% in 2018 from 22.9% in 2017.

**Table 29. Structure of Finance Companies in Brunei Darussalam: 2018**

| Name of Bank | Type of Financial Institution | Date of Establishment | Country of Incorporation and Type of Entity | No of Branches |
|---|---|---|---|---|
| Baiduri Finance Berhad | Conventional Finance Companies | 1996 | Brunei Darussalam (incorporated under Companies Act) | 2 branches including headquarter |
| BIBD At-Tamwil Berhad | Islamic Finance Companies | 2005 | Brunei Darussalam (incorporated under Companies Act) | 2 branches including headquarter |

Source: AMBD

**Table 30. Finance Companies Development in Brunei Darussalam: 2014–2018**

| | Units | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Assets | BND billion | 2.3 | 2.3 | 2.1 | 2.1 | 2.0 |
| | Percentage Change (y-o-y) | 3.6% | –3.5% | –7.7% | 0.0% | –4.9% |
| Assets to GDP | % | 10.8% | 12.7% | 13.3% | 12.5% | 10.9% |
| Assets to Total Assets of Financial Sector | % | 10.4% | 10.8% | 9.7% | 9.9% | 9.1% |
| Capital Fund | BND million | 417.4 | 441.7 | 399.2 | 267.4 | 256.0 |
| | Percentage Change (y-o-y) | 53.0% | 5.8% | –9.6% | –33.0% | –4.3% |
| Deposits | BND billion | 1.6 | 1.6 | 1.6 | 1.8 | 1.7 |
| | Percentage Change (y-o-y) | 4.3% | 2.7% | –1.4% | 9.0% | –6.0% |
| Deposits to Total Deposits of the Financial Sector | % | 9.1% | 10.4% | 9.7% | 10.6% | 9.8% |
| Loans/Financing | BND billion | 2.0 | 1.9 | 1.7 | 1.6 | 1.5 |
| | Percentage Change (y-o-y) | 11.7% | –7.0% | –11.0% | –6.5% | –1.1% |
| Loans/Financing to Total Loans/ Financing of Financial Sector | % | 26.0% | 23.4% | 23.5% | 23.3% | 22.0% |
| Gross NPLF | BND million | 19.1 | 19.4 | 17.8 | 19.1 | 14.8 |
| | Percentage Change (y-o-y) | 11.3% | 1.5% | –8.4% | 7.6% | –22.4% |
| Net NPLF | BND million | 11.6 | 11.8 | 9.0 | 8.3 | 4.5 |
| | Percentage Change (y-o-y) | –12.7% | 1.2% | –23.1% | –8.5% | –45.5% |

Source: AMBD

**Table 31. Trends in Loans/Financing of Finance Companies by Type of Loans/Financing: 2014–2018**

| Type of Financing/Year | Units | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Automobile Loans/ Financing | BND million | 1,930 | 1,783 | 1,587 | 1,487 | 1,484 |
| | Percentage Change (y-o-y) | 12.6% | –7.6% | –11.0% | –6.3% | –0.2% |
| | % of Total Loans/Financing | 96.1% | 95.4% | 95.3% | 95.6% | 96.4% |
| Consumer Durable Loans/Financing | BND million | 79 | 86 | 77 | 69 | 55 |
| | Percentage Change (y-o-y) | –7.1% | 8.7% | –9.8% | –11.0% | –19.9% |
| | % of Total Loans/Financing | 3.9% | 4.6% | 4.7% | 4.4% | 3.6% |
| Total Loans/Financing | BND billion | 2.0 | 1.9 | 1.7 | 1.6 | 1.5 |
| | Percentage Change (y-o-y) | 11.7% | –7.0% | –11.0% | –6.5% | –1.1% |
| Number of Automobile Sales[1/] | Number | 18,114 | 14,406 | 13,248 | 11,209 | 11,226 |
| | Percentage Change (y-o-y) | –2.8% | –20.5% | –8.0% | –15.4% | 0.2% |

Source: AMBD
[1/]ASEAN Automotive Federation

**Table 32. Trends in Financial Soundness Indicators for Finance Companies: 2014–2018 (in percentage)**

| Financial Stability Indicators | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | |
| Total Capital Funds to Total Assets | 17.8 | 19.5 | 19.1 | 12.8 | 12.9 |
| Non-Performing Loans/Financing (net of specific provisions) to Capital Funds | 2.8 | 2.7 | 2.3 | 3.1 | 1.8 |
| **Credit Quality** | | | | | |
| Non-Performing Loans/Financing to Gross Loans/Financing | 1.0 | 1.0 | 1.1 | 1.2 | 1.0 |
| Net Non-Performing Loans/Financing (net of provisions) to Gross Loans/Financing | 0.6 | 0.6 | 0.5 | 0.5 | 0.3 |
| Provision Coverage | 39.2 | 39.4 | 49.1 | 56.7 | 69.6 |
| **Profitability (Annualised)** | | | | | |
| Return on Assets (Before tax) | 3.9 | 4.0 | 3.2 | 2.9 | 3.3 |
| Return on Equity (After tax) | 22.5 | 21.6 | 13.6 | 14.9 | 22.5 |
| Efficiency Ratio | 34.7 | 35.2 | 37.6 | 34.7 | 36.9 |
| **Liquidity** | | | | | |
| Liquid Assets to Total Assets | 11.7 | 14.3 | 14.3 | 19.4 | 16.4 |
| Liquid Assets to Total Deposits | 17.1 | 19.7 | 18.4 | 22.9 | 19.7 |
| Loans/Financing to Deposits Ratio | 125.4 | 113.7 | 102.6 | 88.1 | 92.6 |

Source: AMBD

## References


ASEAN Automotive Federation. (2014–2019). *ASEAN Automotive Federation Statistics, 2014–2019*. Retrieved from http://www.asean-autofed.com/statistics.html

Asian Development Bank 2018a. (2018) *Asian Development Outlook 2018 Update, April*. Retrieved from https://www.adb.org/publications/asian-development-outlook-2018-how-technology-affects-jobs

Asian Development Bank 2018b. (2018). *Asian Development Outlook 2018 Update, September*. Retrieved from: https://www.adb.org/publications/asian-development-outlook-2018-update

Autoriti Monetari Brunei Darussalam. (2017). *Financial Sector Blueprint Harnessing our Economic Potential 2016–2025*. Bandar Seri Begawan: Autoriti Monetari Brunei Darussalam.

Department of Economic Planning and Development. (2016). *Economic Census of Enterprises (ECE) 2016*. Retrieved from: http://depd.gov.bn/DEPD%20Documents%20Library/DOS/BEP/Premilinary_rep2016.pdf

Department of Economic Planning and Development. (2016). *Report of Summary Findings of Household Expenditure Survey (HES) 2015–2016*. Retrieved from: http://www.depd.gov.bn/DEPD%20Documents%20Library/DOS/KPK_HES/Summary.pdf

International Monetary Fund. (2017). *Conclusion of 2017 IMF Article IV Consultation with Brunei Darussalam.* Retrieved from: https://www.imf.org/en/News/Articles/2017/05/19/pr17185-imf-executive-board-concludes-2017-article-iv-consultation-with-brunei-darussalam)

International Monetary Fund 2018a. (2018). *World Economic Outlook, April 2018*. Retrieved from: https://www.imf.org/en/Publications/WEO/Issues/2018/03/20/world-economic-outlook-april-2018

International Monetary Fund 2018b. (2018). *World Economic Outlook, October 2018*. Retrieved from: https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018

International Monetary Fund 2018c. (2018). *Global Financial Stability Report October 2018: A Decade after the Global Financial Crisis: Are We Safer?* Retrieved from: https://www.imf.org/en/Publications/GFSR/Issues/2018/09/25/Global-Financial-Stability-Report-October-2018

International Monetary Fund. (2019). *World Economic Outlook, April 2019*. Retrieved from: https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019

OCBC Bank. (2018). *Trade Tariffs & its Impact on ASEAN: Treasury Research & Strategy*. Retrieved from: https://www.ocbc.com/assets/pdf/special%20reports/trade%20tensions%20and%20its%20impact%20on%20asean%20(jul18).pdf

World Bank. (2018) . *Doing Business 2018: Reforming to Create Jobs*. Retrieved from: http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB2018-Full-Report.pdf

World Bank 2019b. (2019). *Oil Prices to be Lower in 2019 on Slower-than-expected Global Growth, Rising non-OPEC Supply*. Retrieved from: https://www.worldbank.org/en/news/press-release/2019/04/23/oil-prices-to-be-lower-in-2019-on-slower-than-expected-global-growth-rising-non-opec-supply, Washington, DC: World Bank.

Zoller-Rydzek, B., and G. Felbermayr. (2018). *Who is Paying for the Trade War with China?.* Retrieved from: https://www.econpol.eu/publications/policy_brief_11

# Annexes

1. Aggregated Banks’ Balance Sheet: 2014-2018 (in BND Million)
2. Aggregated Banks’ Income and Expense Statement: 2014-2018 (in BND Million)
3. Aggregated Finance Companies’ Balance Sheet: 2014-2018 (in BND Million)
4. Aggregated Finance Companies’ Income and Expense Statement: 2014-2018 (in BND Million)

**Annex 1. Aggregated Banks' Balance Sheet: 2014-2018 (in BND Million)**

| | 2014 | % of total | % change | 2015 | % of total | % change | 2016 | % of total | % change |
|---|---|---|---|---|---|---|---|---|---|
| **TOTAL ASSETS** | **18,677** | **100** | **-3.5** | **17,401** | **100** | **-8.8** | **17,953** | **100** | **5.3** |
| Cash & Bank Balances | 2,037 | 12.4 | 0.1 | 2,259 | 13.3 | -2.1 | 2,495 | 13.9 | 10.4 |
| Placements with banks | 8,151 | 43.6 | -13.3 | 6,296 | 36.9 | -22.8 | 7,783 | 43.4 | 23.6 |
| Investments | 2,307 | 12.4 | 14.4 | 2,119 | 12.4 | -8.1 | 2,016 | 11.2 | -4.9 |
| Loans/ Financing (Net) | 5,507 | 29.5 | 2.7 | 5,914 | 34.7 | 7.4 | 5,204 | 29.0 | -12.0 |
| Other Assets | 406 | 2.2 | 52.4 | 453 | 2.7 | 11.7 | 456 | 2.5 | 0.5 |
| **TOTAL LIABILITIES & CAPITAL FUND** | **18,677** | **100** | **-3.5** | **17,401** | **100** | **-8.8** | **17,953** | **100** | **5.3** |
| Deposits | 16,011 | 85.7 | -4.3 | 14,244 | 83.6 | -11.0 | 15,094 | 84.1 | 6.0 |
| Borrowings & Other Liabilities | 537 | 2.9 | 0.0 | 582 | 3.4 | 8.2 | 551 | 3.1 | -5.3 |
| Capital Funds | 2,129 | 11.1 | 2.6 | 2,216 | 13.0 | 4.1 | 2,308 | 12.9 | 4.2 |

Source: AMBD staff
Note: Numbers may not sum precisely due to rounding

**Annex 1. Aggregated Banks' Balance Sheet: 2014-2018 (in BND Million)**

| | 2017 | % of total | % change | 2018 | % of total | % change |
|---|---|---|---|---|---|---|
| **TOTAL ASSETS** | **17,484** | **100** | **-2.6** | **18,325** | **100** | **4.8** |
| Cash & Bank Balances | 2,207 | 12.6 | -11.5 | 1,971 | 10.8 | -10.7 |
| Placements with banks | 7,684 | 43.9 | -1.3 | 8,416 | 45.9 | 9.5 |
| Investments | 2,210 | 12.6 | 9.6 | 2,195 | 12.0 | -0.7 |
| Loans/Financing (Net) | 4,940 | 28.3 | -5.1 | 5,263 | 28.7 | 6.5 |
| Other Assets | 442 | 2.5 | -2.9 | 481 | 2.6 | 8.8 |
| **TOTAL LIABILITIES & CAPITAL FUND** | **17,484** | **100** | **-2.6** | **18,325** | **100** | **4.8** |
| Deposits | 14,859 | 85.0 | -1.6 | 15,330 | 83.7 | 3.2 |
| Borrowings & Other Liabilities | 699 | 4.0 | 26.9 | 977 | 5.3 | 39.8 |
| Capital Funds | 1,927 | 11.0 | -16.5 | 2,018 | 11.0 | 4.7 |

Source: AMBD staff
Note: Numbers may not sum precisely due to rounding

**Annex 2. Aggregated Banks' Income and Expense Statement: 2014-2018 (in BND Million)**

| | 2014 | % of total average assets | % change | 2015 | % of total average assets | % change | 2016 | % of total average assets | % change |
|---|---|---|---|---|---|---|---|---|---|
| Total Income | 587 | 3.2 | -0.5 | 58 | 3.4 | 0.2 | 645 | 3.7 | 9.6 |
| Total Expenses | 321 | 1.7 | 0.0 | 339 | 1.9 | 5.5 | 380 | 2.2 | 12.3 |
| Profit before tax | 252 | 1.4 | -1.5 | 228 | 1.3 | -9.5 | 175 | 1.0 | -23.4 |
| Profit after tax | 212 | 1.2 | 3.0 | 190 | 1.1 | -10.5 | 146 | 0.8 | -23.3 |

| | 2017 | % of total average assets | % change | 2018 | % of total average assets | % change |
|---|---|---|---|---|---|---|
| Total Income | 663 | 3.9 | 2.7 | 646 | 3.8 | -2.4 |
| Total Expenses | 378 | 2.2 | -0.4 | 361 | 2.1 | -4.7 |
| Profit before tax | 230 | 1.3 | 31.2 | 265 | 1.5 | 15.3 |
| Profit after tax | 198 | 1.2 | 35.9 | 223 | 1.3 | 12.7 |

Source: AMBD staff

**Annex 3. Aggregated Finance Companies' Balance Sheet: 2014-2018 (in BND Million)**

| | 2014 | % of total | % change | 2015 | % of total | % change | 2016 | % of total | % change |
|---|---|---|---|---|---|---|---|---|---|
| **TOTAL ASSETS** | **2,345** | **100** | **3.6** | **2,263** | **100** | **-3.5** | **2,089** | **100** | **-7.7** |
| Cash & Cash Equivalents | 214 | 9.1 | 11.7 | 177 | 7.8 | -17.2 | 173 | 8.3 | -2.2 |
| Placements | 162 | 6.9 | -21.5 | 244 | 10.8 | 51.2 | 220 | 10.5 | -10.1 |
| Investments | 0 | 0.0 | 0.0 | 0 | 0.0 | 0.0 | 3 | 0.1 | 0.0 |
| Loans/ Financing (Net) | 1,920 | 81.9 | 7.3 | 1,787 | 79.0 | -6.9 | 1,650 | 79.0 | -7.7 |
| Other Assets | 50 | 2.1 | 91.8 | 55 | 2.4 | 10.3 | 43 | 2.1 | -20.5 |
| **TOTAL LIABILITIES & CAPITAL FUND** | **2,345** | **100** | **3.6** | **2,263** | **100** | **-3.5** | **2,089** | **100** | **-7.7** |
| Deposits | 1,602 | 68.3 | 4.3 | 1,645 | 72.7 | 2.7 | 1,622 | 84.6 | -1.4 |
| Borrowings & Other Liabilities | 326 | 13.9 | -28.3 | 177 | 7.8 | -45.8 | 68 | 2.6 | -61.4 |
| Capital Funds | 417 | 17.8 | 53.0 | 442 | 19.5 | 5.8 | 399 | 12.8 | -9.6 |

Source: AMBD staff
Note: Numbers may not sum precisely due to rounding

**Annex 3. Aggregated Finance Companies' Balance Sheet: 2014-2018 (in BND Million)**

| | 2017 | % of total | % change | 2018 | % of total | % change |
|---|---|---|---|---|---|---|
| **TOTAL ASSETS** | **2,090** | **100** | **0.0** | **1,988** | **100** | **-4.9** |
| Cash & Bank Balances | 188 | 9.0 | 8.5 | 157 | 7.9 | -16.2 |
| Placements with banks | 316 | 15.1 | 43.7 | 264 | 13.3 | -16.6 |
| Investments | 2 | 0.1 | -50.0 | 2 | 0.1 | 0.0 |
| Loans/Financing (Net) | 1,540 | 73.7 | -6.6 | 1,526 | 76.7 | -1.0 |
| Other Assets | 44 | 2.1 | 1.8 | 40 | 2.0 | -9.4 |
| **TOTAL LIABILITIES & CAPITAL FUND** | **2,090** | **100** | **0.0** | **1,988** | **100** | **-4.9** |
| Deposits | 1,767 | 84.6 | 9.0 | 1,661 | 83.6 | -6.0 |
| Borrowings & Other Liabilities | 55 | 2.6 | -19.1 | 71 | 3.6 | 29.0 |
| Capital Funds | 267 | 12.8 | -33.0 | 256 | 12.9 | -4.3 |

Source: AMBD staff

Note: Numbers may not sum precisely due to rounding

**Annex 4. Aggregated Finance Companies' Income and Expense Statement: 2014-2018 (in BND Million)**

| | 2014 | % of total average assets | % change | 2015 | % of total average assets | % change | 2016 | % of total average assets | % change |
|---|---|---|---|---|---|---|---|---|---|
| Total Income | 145 | 6.7 | 4.0 | 147 | 6.8 | 2.0 | 124 | 5.9 | -15.8 |
| Total Expenses | 58 | 2.7 | -7.6 | 61 | 2.8 | 4.3 | 55 | 2.6 | -9.4 |
| Profit before tax | 84 | 3.9 | 32.9 | 86 | 4.0 | 2.5 | 68 | 3.2 | -21.8 |
| Profit after tax | 69 | 3.2 | 22.2 | 77 | 3.6 | 12.9 | 55 | 2.6 | -28.9 |

| | 2017 | % of total average assets | % change | 2018 | % of total average assets | % change |
|---|---|---|---|---|---|---|
| Total Income | 117 | 5.5 | -5.5 | 120 | 5.9 | 2.5 |
| Total Expenses | 49 | 2.3 | -11.7 | 53 | 2.6 | 7.5 |
| Profit before tax | 62 | 2.9 | -8.4 | 68 | 3.3 | 9.7 |
| Profit after tax | 51 | 2.4 | -7.6 | 61 | 3.0 | 19.4 |

Source: AMBD staff

## Contact us

Autoriti Monetari Brunei Darussalam

Level 14
Ministry of Finance and Economy Building
Commonwealth Drive
Bandar Seri Begawan BB3910
Negara Brunei Darussalam
Phone: +673 238 8388
Fax: +673 238 3787
E-mail: info@ambd.gov.bn
Website: www.ambd.gov.bn